PRIVATIZING A COMMODITY MARKET

A CASE STUDY OF
THE FERTILIZER SUB-SECTOR
REFORM PROGRAM IN CAMEROON

by

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EXECUTIVE SUMMARY

Failure of many African countries to privatize and de-monopolize their state-monopolized agricultural marketing and agricultural inputs marketing operations has involved needless perpetuation of unduly high costs, burdening their government budgets, as this paper on fertilizer marketing privatization with USAID assistance shows was the case of Cameroon in the 1980s. In Cameroon in this period, as elsewhere, these unnecessarily high costs subtracted from resources available for economic growth. They worsened fiscal performance and finally became unaffordable when external developments precipitated a national fiscal crisis.

Fertilizer marketing in Cameroon by the mid-1980s had become unnecessarily costly and complex. This was so largely because it was monopolized by a State agency subject to political pressures and its operation consequently was driven largely by rent-seeking behavior. Although the state fertilizer-marketing monopoly contracted out its procurement operations to private sector operators, it did so on a discretionary and politicized basis that largely nullified any potential benefits from the use of contracting with private sector entities. In the state-monopoly system's final year of operation, immediately prior to the initiation of privatization reforms and subsidy phase out on a sequenced basis, the annual subsidy to the monopolized fertilizer-marketing operation came to approximately $25 million U.S. This subsidy, moreover, was not well utilized, going as it did largely to support marketing operations best left to private market operators operating on their own account rather than as contractual agents for a government-directed system.

In 1986, a massive macroeconomic crisis, touched off by a serious decline in the world prices of Cameroon's major export products, impaired the government's ability to pay the subsidy. This led to serious consideration of reforms of the fertilizer-marketing system of the type that had been proposed a few years earlier in a 1983 World Bank Study. With the help of funding from USAID and a management-intensive USAID-supported fertilizer sub-sector reform program (FSSRP) that focused on and sensitively addressed within-sector institutional reform needs over the next eight years, fertilizer marketing was successfully privatized - and subsidies phased out - with salutary effects for farmers and the economy as a whole. This paper tells how it was done and with what impact.

I. INTRODUCTION AND OVERVIEW: IMPORTANCE OF THE MARKET PRIVATIZATION ISSUE.

A. Market Privatization

In this paper, the term "market privatization" refers to the transformation of a public sector-monopolized, heavily subsidized market into a competitive, private enterprise market. Within the old, unreformed, system, the government, as in pre-reform Cameroon, typically has allocated to itself and its agents exclusive monopolistic rights to buy, import, pay, allocate and distribute fertilizers within the country. Privatizing the fertilizers market means transforming this kind of system into a private enterprise-driven, subsidy free, totally liberal, private, competitive and sustainable fertilizer procurement system. This transformation often has to take place, as was the case in Cameroon, within the overall context of existing macroeconomic policies and institutional setting.

B. Market Privatization in the Context of the Overall Policy Environment

The issue of privatization of their agricultural commodity and input markets has been, and continues to be, an extremely important one for many Sub-Saharan African countries and for others as well.[1] However, most of the recent privatization literature has dealt principally with privatization of non-agribusiness state-owned enterprises (SOEs) in the context of countries of formerly Communist East European countries and the Former Soviet Union. It has not focused much on market privatization in the agricultural sector, nor on the privatization of commodity markets in Sub-Saharan African countries.[2]

Most works on market privatization are too general and superficial to contribute significantly to understanding the process of market privatization. Although they state that market privatization is a process, they do not describe or empirically analyze it as a process in any great detail. In addition, they neglect the benefits/costs and management of market privatization.[3]

This paper's study of the privatization of the fertilizer market in Cameroon attempts to fill this gap by providing a detailed, "hands on" case study of a particular instance in which successful market privatization was carried out. Our research strategy has been to specifically avoid the temptation of discussing sectoral economic policy reform in a "black board" environment (to borrow R.H. Coase's terminology)[4] where transaction costs are assumed to be non-existent and changes are assumed to occur instantaneously. Rather, we deal with market privatization explicitly in the prevailing imperfect context of the 1987-94 Cameroonian economy and institutions, of which we first provide some detailed description and analysis. Lessons learned from the Cameroon case study have relevance to the broader issue of privatization of commodity markets not only in Cameroon but in other Sub-Saharan African countries as well.

To conduct a commodity market privatization in such a country is inevitably a difficult task, but in this case it was successful. As will be shown, market privatization requires changes going well beyond the typical set of economic policy changes, as commonly conceived, to include early and swift implementation of certain institutional changes. Market privatization also may require that those indispensable and highly specific institutional changes be brought about in the - at the same time largely unchanging - adverse macroeconomic and overall institutional environments that characterize those countries. Those distorting macroeconomic and institutional constraints will tend to remain unchanged as long as the government lacks a strong commitment in general to free-market economic policies and institutions (e.g. to a greater independent role for the private sector and guarantees of individuals' right to expeditious and impartial enforcement of property rights and contracts).

The general purpose of this paper is to describe clearly and empirically the process of privatization of the fertilizer market in Cameroon from 1986 to 1994 within the context of the constraints of the prevailing overall environment of that period (i.e. macroeconomic policies and institutional setting). These constraints imposed significant and hard-to-avoid transaction costs on business activities. This was, moreover, an environment with little capacity to absorb policy reforms because of the resistance that such reform tended to elicit from public and private sectors' stakeholders. In addition, ability to introduce reforms was extremely restricted by the limited capacity of private sector operators to adjust to new and more efficient business practices.

The specific purpose of this paper is to draw several lessons and broader conclusions from the fertilizer market privatization experience under the USAID-financed Cameroon Fertilizer Sub-Sector Reform Program (FSSRP). **A first lesson** is that in implementing policy reform(s) intended to lead to the creation and establishment of sustainable, liberal, privately operated, competitive commodity markets, it is critically important to differentiate between what one might call "bare bones" economic liberalization measures and a full program of market(s) privatization. Economic liberalization measures form only a part of a broader program of market privatization.

A second lesson is that the removal of anti-free market economic policy constraints by itself (under the guise of economic liberalization) is likely to be highly disruptive if unaccompanied by complementary measures. This is because by its very nature it cannot help but obliterate (or at least require the substantial transformation of) most of the existing business relationships that underpinned the operation of the existing system.[5] The disappearance of existing business relationships causes disruptions in market activities and generates social costs. High social costs unprovided for can readily prompt governments to reverse the decision to adopt a liberal policy regime for a sector.

Preservation of the newly adopted liberal market policy regime dictates that alternate business relationships be created or fostered in the market fairly rapidly in order to minimize social costs and accelerate the reform's generation of social benefits. To introduce the alternate business relationships needed requires the introduction of new institutional arrangements to enable the genesis and operation of an alternative market structure. The idea is to minimize or reduce to tolerable levels social costs in the short run[6]. Creation and introduction of new institutional arrangements constitutes the essential privatization element of the market privatization program. The winning implementation strategy is one that focuses on the privatization element once, or even before, the new liberal policy regime is adopted. This was essential to the progress achieved under the Cameroon fertilizer market privatization program in spite of adverse macroeconomic and institutional environments.

A third lesson from the FSSRP Program, therefore, is the relevance and importance of institutional arrangements in the process of market privatization. The implementation, from the very outset of the FSSRP program in 1987 onward, of market liberalization decisions and actions had the inevitable - and salutary - effect of obliterating almost all existing institutional arrangements[7]. But the program was designed in such a way as to minimize and make tolerable the associated transitional social costs. This paper argues that the successful implementation of the Cameroon fertilizer market privatization program was traceable to the efforts devoted to induce the genesis of new "RULES OF THE GAME". These involved specific, partly transitional, institutional arrangements to enable relative newcomers to have easy access to the market and to lower transaction costs of operating through the market and transactions costs in general, to well below what they were prior to the institution of the reforms.

As is well known, the role of the "rules of the game" and other institutional arrangements are critical to the efficient operation of commodity markets. According to H.R. Coase:

> In order to carry out a market transaction, it is necessary to discover who it is that one wishes to deal with, to inform people that one wishes to deal and on what terms, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on. These operations are extremely costly, sufficiently costly at any rate to prevent many transactions that would be carried out in a world in which the pricing system worked without cost.[8]

The corollary to this statement is that in many real-world economies, many such operations are, because of unremedied, but, with insight and effort, readily remediable institutional deficiencies, far too costly for market operations to be carried out. In other, better, organized societies with a better legal/institutional/regulatory structure, these operations can be and are carried out at moderate or even extremely low cost.

The paper traces the relationships of changes in those arrangements to the efficiency gains derived from the market privatization that they facilitated. This discussion is an effort to elicit what the authors believe needs to be greater recognition, by economists and others, of the relevance and importance of institutional arrangements. The discussion also highlights the need for modifications in these arrangements in the process of achieving market privatization.

A fourth and final lesson concerns implementation issues of the Cameroon fertilizer market privatization program in the context of prevailing and largely unchangeable macroeconomic policies and institutional setting. How to accomplish meaningful sectoral reform within the confines of a largely unalterable larger policy framework is a perennial issue for development practitioners.

In considering possible objections to the third lesson by advocates of a more "*laissez faire*", "hands off" design approach the case for such an approach to the management of the Cameroon fertilizer market privatization program is discussed. In such an approach, elements such as the FSSRP's subsidy and loan funds would have been omitted. The paper argues, however, that such an approach – one that at the time might have been advocated by many development specialists - would have been a mistake.[9] Rather, a hands-on, labor-intensive management was needed to successfully implement the program in its actual setting. In such a setting, numerous activities requiring specialized skills need to be carried out in a timely fashion. (These include, for example, redefining the role of the government within the fertilizer market, building the capacity of private operators to function in a free-market, and undertaking activities to lower transaction costs). In the authors' view it can be confidently asserted that this will continue to be true for other programs undertaken in other countries in the future. The issue of effective implementation of sectoral policy reform programs is not only a concern for the US Agency for International Development. It has also become a concern for the World Bank[10] and will be for other development institutions.

However, before getting into the crux of the matter of commodity market privatization, the next section will provide background information on the Cameroonian macroeconomic policy framework and institutional setting from 1986 to 1994.

II. MACROECONOMIC POLICIES, INSTITUTIONAL SETTING AND PROCESS OF PRIVATIZATION.

The collapse and subsequent lengthy period of stagnation of international prices for petroleum products, cocoa, coffee, cotton and other primary commodities in the mid-1980s was a landmark event. It triggered financial crises, making programs of financial stabilization and structural reform imperative in many of the export-oriented countries in Central and West Sub-Saharan Africa, Cameroon included. Cameroon, though often cited as a success story by officials from donor organizations in the 1970s until early 1986,[11] nonetheless was one of several countries falling into severe crisis at that time.[12]

To deal with the persistent crisis and its dwindling financial resources, the Government of the Republic of Cameroon had to review its management of the economy and, in particular, had to reexamine and reconsider its active and direct - some might say intrusive - participation in the country's economic life. Indeed, by 1986, the government had come to control, at least nominally, almost all major economic activities through its conscious design and operation of a set of "statist" economic policies and by means of the determination of a mass of restrictive rules and procedures.

In particular, the government was actively and directly involved in four key interrelated areas: in the production of goods in general, through its ownership of around 150 enterprises; in the marketing of cocoa and coffee, through its appropriation to itself, and partial parceling out, of monopolistic rights to buy, sell and export these key agricultural export products; in the provision of agricultural inputs (fertilizer, pesticides and seeds), through its direct management and control of all financial and physical aspects of the procurement systems; in the banking sector, by majority share holding, selection of bank general managers and board members and large deposits of public funds; and in the case of maritime freight transport, through having granted monopolistic rights to a government-owned shipping company. In other words, the role of government in the economic life of Cameroon was extremely pervasive until late 1986 - when the government began to consider major policy and institutional changes in the opposite direction. The public and para-public sector by that time represented approximately 30 percent of GDP.[13]

According to the line of reasoning used by government officials defending this kind of policy, the preponderant, direct role being played by the government in the Cameroonian economy had been necessitated by the absence of a dynamic private sector in the 1960s and 1970s. During this period, Cameroon had benefited from high prices for these export products, and the high influxes of foreign exchange and tax revenues whose utilization the government wished to optimize through taking a larger, more direct role in economic life. The high level of intervention exercised by the government was also, according to high ranking government officials, necessary to protect consumers and farmers - presumably from exploitation by the private sector, and from their (consumers' and farmers') alleged inability to use windfall revenues wisely.

Thus, it is important to note that government officials believed that neither consumers nor farmers had been well-served by the private sector and free market mechanisms in the 1960s and 1970s when government had been less involved in the marketing of agricultural commodities. Government officials believed that neither consumers nor farmers would be well served by a predominantly market and private enterprise based system in the 1980s, either.

Thus, in 1986, when world prices for its principal export products dropped drastically and produced a lengthy period of crisis and financial disarray, the Cameroonian economy was organized as an economic system - one that seemingly unlikely was to change much in the foreseeable future - called "*Capitalisme d'Etat*" (literally, State Capitalism). Within this system, the government had monopolized many of the productive roles that would normally have been played by private producers, investors, consumers and farmers, and in which the government took it upon itself to try to act as the guarantor of the welfare of producers, consumers and farmers.

The government's direct involvement in productive activities helped to account for the large number of SOEs. Acting in its capacity as guarantor of social welfare, the government claimed monopoly rights in numerous areas of economic activities, and set up as well as directly managed a variety of "welfare protection funds". These included tricultural input subsidy funds, the commodity price stabilization funds and the price equalization funds.[14] These funds, integral parts of many of the state-dominated commodity marketing systems, were considered welfare protection devices (or "*garde-fous*"), were, as of 1994, still prevalent in Cameroon and other countries of francophone Sub-Saharan Africa.

As should be expected, the inefficiency of Cameroon's public sector was significant because of its bloated size. The problem of inefficiency was further exacerbated by the nature of that public sector. Cameroon's public sector, and, hence, the fertilizer importing and distribution system, operated under the direction and supervision of a political and bureaucratic regime almost totally lacking in transparency and accountability. Civil servants had tremendous discretionary power and rent seeking potential within the bureaucratic realms they controlled.[15]

While the inefficiency of Cameroon's public sector presumably had existed well prior to 1986, the government's generally satisfactory fiscal situation up to that year had permitted the government to provide continuous and large injections of public funds as subsidies into inefficient state-run commercial operations. Those public funds had come from charges levied by the government - and ultimately transferred to the general Treasury as needed - from exports of petroleum products, cocoa, coffee, cotton and other products and services.

With the financial crisis starting in late 1986, however, the government's direct involvement in productive activities began to decline as revenues from such sources dwindled. Its involvement in economic life became a fiscal liability. It suddenly found that it no longer had sufficient financial resources to sustain the operation of the approximately 150 inefficient SOEs, 14 banks, cocoa and coffee marketing systems, agricultural input procurement systems. Thus, the financial crisis triggered the critical degree of instability which seemingly had been needed to bring into question the anti-market, big government solutions which the country's "fertilizer rent-seeking coalition" and other rent-seeking coalitions in and out of government had imposed upon society and/or manipulated in their own interests.[16]

A. Fiscal Impact of System Inefficiencies

The net result of the inefficiencies in the system and the policy of uniform pricing, which we will discuss in more detail later, was a budgetary drain of approximately FCFA 6-7 billion per year (US $ 24-27 million per year at the then-current assumed exchange rate of FCFA 250 per US dollar) for an average annual tonnage of fertilizer throughput of 60,000-65,000 tons from 1985 to 1987. The financial cost was, about 1% of 1988 fiscal revenues according to the *International Statistics Yearbook*, and a much larger percentage of the public sector deficit.

B. Failure to Meet the Needs of Intended Beneficiaries

The public procurement system according to studies conducted in 1983 and 1986 (the 1986 one funded by USAID) took up to 16-18 months to import and distribute the fertilizer it handled. This meant that there must have been at least some - and probably large numbers of - disappointed individuals and cooperatives who got the fertilizer they had ordered only well after they needed to have it.

Moreover, even with this high level of public expenditure of approximately $25 million a year, the system was not meeting the needs of the intended beneficiaries as these were evidenced by the existence of an active black market. Where subsidized fertilizer was sold at a uniform price of FCFA 45 per kilogram across the country, black market fertilizer cost considerably more - FCFA 65 per kilogram in the West Province in 1987, (or over 60% percent more) for example.

C. The Push for Fertilizer Marketing and Other Reforms

Within the crisis environment, the government called on the bilateral and multilateral donor and financial organizations for assistance in 1987. Unanimously, the donors proposed that the government reduce the size of the civil service work force and withdraw itself from direct, active involvement in the production of goods by SOEs, the marketing of primary export products by para-public national boards, and of agricultural inputs by public monopolies. They also proposed that the government liberalize the economy. As described by one high-ranking government official, the donors would be assisting the government to transform the Cameroonian economy from a structure labeled "*Capitalisme d'Etat*" to a liberal, free-market economy.[17]

It is proposed, for purpose of clarity and simplicity, to visualize Cameroon's donor-financed Structural Adjustment Program (SAP) in general and the seven-year US dollar 18.5 million USAID-financed Fertilizer Sub-Sector Reform Program (FSSRP)[18] in particular within that framework.

A framework covering the extreme of "*Capitalisme d'Etat*" at one end of the spectrum of market structures and the liberal, free-market economy at the other, will be used to discuss the process of privatizing the fertilizer market in Cameroon under the FSSRP. In this paper, market privatization refers to, as noted, the transformation of a heavily subsidized public procurement system to a subsidy-free, totally liberal, private, competitive and sustainable fertilizer procurement system within the overall context of existing macroeconomic policies and institutional setting. Privatization of the Cameroon fertilizer market and total elimination of the fertilizer subsidy constituted the ultimate objectives of the FSSRP policy reform program.

As noted, the FSSRP was implemented under an extremely adverse macroeconomic environment from 1987 to 1990 that continued through 1994 and beyond.[19] During the 1987-90 period, the Cameroonian economy was contracting significantly (approximately by 35 percent cumulatively in real terms). The government set low ceilings on nominal interest rates and determined administered prices for most major consumer products. It also maintained the Franc CFA (FCFA, *Franc de la "Communauté Financière Africaine*") and French Franc (FF) parity constant at FCFA 50 per FF 1 in the face of significant over-valuation of the FCFA (approximately 35 to 50 percent) over most of the period. The CPI index, which had been rising rapidly from 1983 to 1987 leveled off and was virtually steady from 1988 through 1993. In 1994 the CPI index jumped about 30 percent consistent with the devaluation of the CFA Franc.

In addition, the banking sector was in turmoil during much of the crisis period, with six out of fourteen banks closed or liquidated and the four largest of the remaining eight banks requiring restructuring. Large amounts of non-performing deposit money bank loans eventually were taken over by the State, and corresponding adjustment of the banking system's balance sheets took place. The cocoa/coffee sector was in crisis, because the government-administered marketing system had, in the first instance (1986-87) broken down and, in the second instance, was being dismantled (1987-1992). Huge arrears were also owed to all economic operators and farmers.

The period 1990 to 1994, under the donor-financed Structural Adjustment Program saw some improvements. The government liberalized nominal interest rates, abolished administered pricing for the bulk of consumer products and drastically reduced budget outlays (from US$ 3.0 billion in 1987 to US$ 1.8 billion in 1992). Four out of the remaining eight banks were restructured and the government committed itself to gradually liberalize the marketing of cocoa and coffee. However, the FCFA-FF parity was maintained at the 1948 rate of FCFA 50 to FF 1, until finally, the problem of overvaluation of the FCFA was addressed. On 12 January 1994, the Central African Franc Zone devalued the FCFA by 50 percent (in foreign currency terms for the FCFA), changing the parity to FCFA 100 per FF 1.[20]

Banking issues became important to the implementation of the FSSRP because of the way fertilizer import operations came to be financed: the financing of the importation of fertilizer from Europe to Cameroon was, starting in 1988, done by means of irrevocable letters of credit issued by Cameroonian banks. Only duly certified and credible Cameroonian banks could issue letters of credit which were acceptable to European banks, and the number of such Cameroonian banks was sharply reduced by the crisis. Those few banks which enjoyed this status were in a position to set very stiff terms, on a "take it or leave it" basis for the service. In addition, Cameroon's surviving commercial banks were by then, if not earlier, extremely risk-averse: they regularly required liquid financial guarantees of at least 100 percent of the value of the letter of credit from their clients. This virtually prohibitive - to all but the most well-off importers - guarantee requirement was not as unreasonable as it might seem. It was forced upon bankers by the *de facto* non-enforceability in Cameroon of property rights and contracts.[21]

The terms on which marketing of cocoa and coffee took place impacted the demand for fertilizer for two reasons: (1) government-fixed producer prices determined the benefit-cost ratio of using fertilizer on coffee; and (2) revenues from cocoa and coffee sales represented, on average, fifty percent of farmer's income and, thus, were a major factor in determining farmers' ability to pay for fertilizer.

During the late 1980s and early 1990s, government fixed producer prices for coffee and cocoa had been low and they had no relationship to prevailing international prices. Even so, the coffee/cocoa National Produce Marketing Board accumulated huge arrears owed to coffee/cocoa farmers, processors/distributors, exporters and bankers.[22] In addition, the contraction of the Cameroonian economy lowered the overall levels of liquidity and purchasing power in real terms of the general population and this impacted adversely on domestic demand for food crops. The lower levels of demand for food crops caused drops in food crop prices and lowered the benefit-cost ratios of using fertilizer on food crops. And finally, the exchange rate was important to the FSSRP - because the FCFA was overvalued in real terms, and this implied a related constant threat of devaluation (by as much as 40-50 percent), which not only deterred foreign investments in Cameroon but also caused significant capital flight out of Cameroon.

If the macroeconomic environment within which the FSSRP program was implemented during the 1987-94 period was bad - as we have seen it was, with certain policy changes (e.g. devaluation) not being available to Cameroon on a unilateral basis - the institutional environment was worse. During the 12-14 January 1992 workshop organized by the World Bank with the government and donor's organizations, it was pointed out that the overall institutional environment in Cameroon was not propitious to the development of the private sector.[23]

Among the constraints to the development of the private sector in Cameroon, the following factors were mentioned at the 1992 workshop: a lack of respect for the rule of law; an inadequate legal environment; a regulatory environment which raised transaction costs; administrative authorities which interfered with the fair play of open competition; the slow pace at which the government at that time was withdrawing itself from productive activities; and, an almost complete lack of access by the majority of private sector operators to investment funds.[24] Given the institutional environment which prevailed in Cameroon during the 1987-94 period, and perhaps earlier, all private investments were undertaken with great risk and uncertainty, because the government either could not or did not guarantee the individuals' right to expeditious and impartial enforcement of property rights and contracts. This assessment serves to underscore the importance of the Cameroonian institutional environment in the privatization of the fertilizer market. Businessmen operating in that market and that environment assumed high risk and uncertainty and incurred high transaction costs.[25]

III. PUBLIC MONOPOLY OF FERTILIZER IMPORTATION AND MARKETING: THE OLD INSTITUTIONAL ARRANGEMENTS AND HOW THEY WORKED

Table I shows fertilizer consumption in tons in Cameroon from 1980 to 1985 and how it was divided between unsubsidized and subsidized fertilizers consumption. The table shows that for the five-year 1980-85 period which just preceded the crisis, subsidized fertilizer accounted for approximately 60 percent of all fertilizer consumption by volume, and over this period had been making up an increasing proportion of the country's total fertilizer consumption.

Almost all of the unsubsidized fertilizer was imported and distributed by crop development parastatals, of which SODECOTON, the cotton parastatal, was the largest consumer. SODECOTON was providing fertilizer and other inputs on credit to small-holder cotton farmers in the three northern provinces at the beginning of the crop cycle. These farmers then reimbursed SODECOTON for the purchase of these inputs at full-cost (i.e. world market c.i.f price plus inland transport, storage and presumably overhead) immediately on the sale of their harvests to SODECOTON, out of their proceeds from the sale. Up to, and even through 1987, this unsubsidized fertilizer procurement system was self-supporting and functioned with relative efficiency.

In 1988, however, because of SODECOTON's financial problems, which were due primarily to a depressed cotton market that year but were exacerbated by excessive operating costs,[26] the SODECOTON fertilizer procurement system ceased to operate. The European Economic Community (EEC) at that point began a two-year and 60,000 tons program to supply fertilizer without charge to SODECOTON and to other development schemes in northern Cameroon for resale, at full cost prices as before, by the development schemes to their farmers. Thus, the EEC program provided the development schemes with 100 percent subsidized fertilizer but with the proviso that the development schemes sell this fertilizer on a 100 percent full-cost basis to development schemes' participants.

After the FSSP was underway, with the government's concurrence two programs were instituted to merge fertilizer procurement and marketing in the three northern provinces with that in the other seven southern provinces to form a uniform national program à la FSSRP - presumably with a view of withdrawing the government from fertilizer procurement and, thus, reducing costs.[27]

The initial intended beneficiaries of subsidized fertilizer had been limited to small-holder arabica and robusta coffee growers. In the early 1980s Cameroon was producing approximately 20,000 tons of mild highland arabica and 80,000 tons of lowland robusta each year. During the mid-1980s, production fell, with the collapse of world market prices, to 1992-93 estimates of 70,000 tons of robusta and 11,000 tons of arabica.[28] Of this, approximately 90 percent of the arabica and 80 percent of the robusta were produced by farmers with holdings of two hectares or less. The stated rationale for supplying subsidized fertilizer to this segment of the rural economy was as partial compensation for the heavy taxation being levied on the coffee sector by the government via low producer prices and substantial explicit and implicit export taxes and overvaluation of the currency in real terms.[29] However, as the system evolved, producers of other crops (such as corn and vegetables) were also incorporated into the subsidized system. It is this expansion of the number of recipients that largely accounts for the growth of subsidized fertilizer summarized in Table I.

In order to procure and distribute subsidized fertilizer, the government had, in the early 1970s, established a public monopoly jointly managed by the Ministry of Agriculture (MINAGRI) and FONADER ("*Fonds National de Développement Rural*," the rural development credit fund agency). The division of labor was as follows. MINAGRI was principally responsible for establishing quotas of subsidized fertilizer by province and by distributor and for the agronomic aspects of preparing and reviewing tenders to private sector dealers. FONADER was the monopoly's financing and contracting agent. Working together with MINAGRI and FONADER, were a number of other ministries: the Ministry of Industrial and Commercial Development (MINDIC) for the determination of fertilizer prices, the Ministry of Finance (MINFI) for the release and transfer of funds from the Treasury to the fertilizer subsidy fund, the Ministry of Public Tenders/Computer Services (MINMAP) for the publication of tenders and review and approval of bids, and the Ministry of Plan and Territorial Development (MINPAT) for the overall inter-ministerial coordination.

With the exception of those government officials who implemented the FSSRP with USAID/Cameroon, it can be considered that representatives of MINAGRI, FONADER, MINDIC, MINFI, MINMAP and MINPAT were, in general, members of what may be termed a "fertilizer rent-seeking coalition" who resisted the privatization of the fertilizer market. Rent-seeking behavior under the public monopolistic marketing system was protected and facilitated by the formal and legal monopolistic policy regime just mentioned. In addition, rent-seeking behavior by members of the coalition was protected and fostered by an informal, undocumented, but no less real set of complementary institutional arrangements which comprised both clearly identifiable business relationships and less clearly identifiable incentives to nurture those business relationships.

A. The State Monopoly Policy Regime

The monopolistic policy regime governing subsidized fertilizers included the following elements: public tenders; importation quotas granted to successful bidders; public monopoly in the distribution of subsidized fertilizers; quantitative allocation to cooperatives, private distributors and end-users; uniform pricing for all types of subsidized fertilizers across the country; graduated payment schedule system (30%, 40% and 30%) to importers; and a cumbersome system of subsidy allocation and disbursement.

For the operation of this monopolistic policy regime, a large cast of actors representing numerous ministries was needed. That cast of players, with the exception of government officials who implemented the FSSRP with USAID/Cameroon, constituted the country's "fertilizer rent-seeking coalition". Using the legality of the above formal policies, members of that coalition created a subsidized fertilizer procurement system over which they had control. Their control was virtually complete and total, covering as it did every physical and financial aspect of the subsidized fertilizer flows from Europe to Cameroon, within Cameroon and from Cameroon to Europe.

B. Institutional Arrangements and Inefficiencies

The FONADER-MINAGRI monopoly and their agents did a generally bad job of meeting customer needs but no one else - such as local importers or distributors or cooperatives or cooperative unions - was allowed to compete with them for the customers' business. Under the public monopoly regime, there was little or no spur to increase efficiency or serve the customer better.

Because the policy regime enabled members of the fertilizer rent-seeking coalition to control all aspects of the procurement system, it had a stifling effect on efficiency. Consultations with government officials and with private importers and distributors operating in the FONADER-MINAGRI monopoly indicated that the formal policy regime required that, to be legal, all business transactions related to subsidized fertilizer had to be contracted with, approved by, executed with and paid for by government officials who were members of the coalition. As might be expected to happen in such a case, such officials tended to extract "scarcity rents" or "incentive payments" for contracting, approval, execution and payment.

While the tasks of importing fertilizers, transporting them from the port of entry to wholesalers in the various provincial centers, and retail distribution were all carried out by members of the private sector, to characterize the system as predominantly private sector- and market-based would be incorrect. In carrying out such tasks, businessmen were exclusively executing specific contracts for FONADER on behalf of the government, rather than being allowed to act on their own account (at least explicitly) or executing contracts (other than *pro forma* ones with fertilizer businesses overseas) to which FONADER or the government were not involved as parties. Given the prevailing key role of bureaucratic discretion in ultimate decision-making, no contracts could be awarded, satisfactorily executed and paid for without the government officials' approvals. Needless to say, there were transaction costs attached to those approvals. These additional transactions costs greatly inflated the overall cost to private entrepreneurs of doing business in the subsidized fertilizers which by 1985 were estimated to make up over 50 percent of the market. These swollen costs mostly got passed on to the rest of the economy - by being shared between the taxpayer (via tax-financing of the subsidies which helped cover the increased costs), the users of fertilizers, and the consumers of the commodities produced directly or indirectly (i.e. imports) with the use of the fertilizers.

Although the private sector actors were presumably diligent and efficient in carrying out their specific contractual tasks, they were, however, necessarily disconnected, disarticulated, poorly linked and ill-coordinated in their actions. Effectively this was a system in which each private sector actor was performing a separate contractual task without there being any meaningful, market-mediated connection or integration with others involved in the marketing chain. To the extent that there was interaction, officially at least, it could take place only through FONADER. This high level of centralization and bureaucracy was the source of numerous problems and inefficiencies. What should have been done largely through the market, and by autonomous private sector entities, had been preempted in its essentials by an administrative apparatus inherently incapable of outperforming the market.

The problems and delays began with the protracted procedure for issuing a public tender, reviewing bids and awarding contracts. This process was extremely cumbersome, involving as it did several ministries, and created many opportunities for the exercise of bureaucratic discretion and for the reaping of the associated rewards associated with it. In awarding contracts, there was typically always pressure to divide them among numerous suppliers. This led to sub-optimally small contracts and awards to higher priced bidders. Thus it may be concluded that the system, as it operated in practice, encouraged the formation and overly prolonged existence of trading operations insufficiently specialized in the fertilizer business and operating on average on a suboptimal scale. The numerous small contracts meant that importers brought into Cameroon fertilizer shipments which were subjected to high freight rates because freighters were not fully laden.[30]

The *de facto* exercise of bureaucratic discretion in the award of importation contracts strongly favored the local importers, and limited the direct participation of foreign importers in the Cameroon fertilizer market. There were from 1985 to 1987, the last two years in which the public monopoly system continued to operate and just prior to initiation of the FSSRP, some forty local importers which were actively participating in the subsidized fertilizer procurement system.[31] However, most of those forty local importers were not financing their import of fertilizers with their own or locally supplied outside funds, nor were they basing their operations on their own knowledge and contacts with the banking sector and the market.

Rather, they were, in almost all instances, merely "mail box agents" working on commission for European fertilizer brokers and manufacturers.[32] Under that "mail box agent" arrangement, the tasks of the local importer agents were limited to ancillary, "second order" ones: submitting bids, once these had been formulated into the public tenders; ensuring positive outcomes for their *de facto* employers from the bid review process; obtaining importation contracts/import authorizations and licenses; facilitating the port clearance process; delivering the fertilizer into MINAGRI/FONADER's warehouses; and ensuring that payments from MINAGRI/FONADER were received on schedule and according to contract. But, the government or the foreign brokers or manufacturers assumed most of the strategically important marketing and financial functions.

Consequently, fertilizer importers in Cameroon did not, in general, have to independently negotiate the purchase contracts with foreign brokers, manufacturers or transport contracts with foreign shippers - nor did they typically have to negotiate with local commercial banks for financing or the modalities for issuance of letters of credit. And they did not have to solicit and negotiate sales contracts with distributors and retailers.[33]

The above description of the very limited role that local importers played under the foreign broker-"mail box agent" arrangement becomes more evident in light of the financing of fertilizer imports under the public monopolistic policy regime. Under the foreign broker-"mail box agent" arrangement, that financing was very involved, cumbersome, costly and inefficient.

It was arranged in eight discrete steps. (1) The foreign broker issued, on behalf of his Cameroonian agent submitting a bid to supply fertilizers to MINAGRI/FONADER, a Bid Bond ("*Une Garantie de Soumission*")representing five percent of the value of the bid, to demonstrate the seriousness of the agent. The beneficiary of the Bid Bond was MINMAP. MINMAP got to keep the bond in case of default by the Cameroonian agent at this stage of the bidding process). 2) When the agent was awarded a contract to import fertilizers for MINAGRI/FONADER, the foreign broker withdrew via his agent, the bid bond to substitute for it a performance bond. (3) To have a contract to import fertilizers awarded to his agent, the foreign broker issued on the agent's behalf a Performance Bond ("*Une Garantie de Bonne Performance*") representing five percent of the value of the contract (the beneficiary of the Performance Bond was MINAGRI/FONADER. It would get to keep the bond in case of default of the Cameroonian agent at this stage of the contractual process).

To continue with the process, 4) the foreign broker received, via his Cameroonian agent, from MINAGRI/FONADER an advance equal to thirty percent of the value of the contract. 5) In exchange for this advance, the foreign broker presented, via his agent, an Advance Payment Reimbursement Guarantee ("*Une Garantie de Restitution d'Acomptes*" - i.e. a bond guaranteeing he would pay back the advance) for the thirty percent of the value of the contract to MINAGRI/FONADER (which got to keep the Advanced Payment Guarantee in case of default of the Cameroonian agent or foreign broker). 6) The foreign broker then issued a Letter of Credit for 100 percent of the value of the shipment directly to the manufacturer. With the 30 percent cash advance, the broker was actually financing 70 percent of the cost of fertilizer importation ex FONADER's warehouse at the port of entry. With the Letter of Credit for the 100 percent of the value of the shipment issued by the broker, the manufacturer was not incurring any financial risk to supply fertilizer to Cameroon. 7) Upon arrival of the fertilizer shipment at the port of entry, MINAGRI/FONADER inspected the shipment and, subsequently, paid the foreign broker via his de facto local agent forty percent of the value of the shipment. 8) upon delivery of the fertilizer into FONADER'S warehouses, MINAGRI/FONADER paid the broker via his agent the remaining 30 percent within 45 days.

Under this financing mechanism, prompt and full payment depended entirely on the good will of the members of the "fertilizer rent-seeking coalition." In other words, if payment was not made as due the broker could not have recourse to the courts to make FONADER pay because the Cameroonian justice system was notoriously ineffective. And, under the best of circumstances, the execution of an importation contract required an average of six months from the time a bid was submitted to the time a fertilizer shipment arrived at the port of entry.[34] In addition, the uses of Bid Bond, Performance Bond and Advance Payment Guarantee as well as the extended period of time required to execute the importation contract added significantly to the cost of importing fertilizer into Cameroon under the public monopolistic regime. Finally and, perhaps, most importantly, the prevailing institutional arrangements between MINAGRI/FONADER, foreign brokers and local agents imposed a very limited capacity on the local Cameroonian "mail-box agent" importers.

Once the fertilizer was delivered to Douala, the importer's responsibility ceased. Now came a second problem contributing to costs and system ineffectiveness. Due to the government's having monopolized by law the right to transport subsidized fertilizer, and the frequent lengthy delays by the government in awarding transport contracts, fertilizer, once it had arrived in-country, was often stored in the port of entry for lengthy periods. These delays not only produced high storage charges, but also raised physical losses and led to deterioration in the quality of the fertilizer.[35]

While MINAGRI/FONADER was making discretionary quantitative allocations and untimely deliveries, it did not have to absorb any of the resulting losses. Cooperatives and other distributors had to absorb the full brunt of the mistakes that were constantly being made. They could not walk away and do business with some other dealer and by law had been made totally dependent on MINAGRI/FONADER, not only for the availability of fertilizer and timing of delivery, but for all financial aspects of fertilizer distribution. In their capacity as retail distributors, cooperatives had been assigned roles that were, by regulation, limited to local distribution and retail sales. Consequently, cooperatives seldom had to worry about cash flows or seek credit from commercial banks to finance fertilizer distribution as they would be fully financed in kind by the fertilizer they were to distribute when it finally arrived. In addition, cooperatives often inflated their requests, purchased fertilizer only once a year, and managed their stocks of subsidized fertilizer improperly and inefficiently.

Similarly, the capacity of the commercial banking sector to operate in the fertilizer market was also limited and restrained by *de facto* government policies. Commercial banks had business relationships with Cameroon's fertilizer importers, but those relationships were generally superficial. They were primarily limited, in most instances, to checking the accounts through which payments from MINAGRI/FONADER passed to importers' accounts in Cameroon and from them to the accounts of foreign brokers or manufacturers abroad.

The monopolistic policy regime promoted other counterproductive institutional arrangements and further inefficiencies in the selection and utilization of subsidized fertilizer. First, all public tenders required that fertilizer selected for subsidization be blended and bagged in Europe. Second, even for application on coffee, the selected formulations were not always the most efficient. And third, formulations designed for application in coffee were increasingly being used on food crops.[36]

Thus, prior to 1987, the concentration of all contracting activities around the government and the lack of connection and vertical coordination among the various private sector elements of the public monopolistic fertilizer marketing system were principally a consequence of economic policy and institutional constraints. These constraints interfered with and largely prevented the establishment of sound, integrated and cost efficient business practices.

The net result of the inefficiencies in the system and the policy of uniform pricing was a budgetary drain of approximately FCFA 6-7 billion (US dollar 24-27 million at the assumed exchange rate of FCFA 250 per US dollar) per year for an annual tonnage of 60,000-65,000 tons from 1985 to 1987. Even this high level of public expenditure was not meeting the needs of the intended beneficiaries as evidenced by the existence of an active black market (for details see Chapter II, Section B).

In addition to tolerating obvious inefficiencies, the public monopoly made few demands on the capacity of the private sector participants, be they importers, commercial banks or distributors. The high degree of centralization in the system meant that all decision-making and discretion resided in the public sector. The private sector was given limited, discrete tasks that required little appreciation of the wider environment.

Table II summarizes all cost data related to the last year of operation by the public monopolistic procurement system.

IV. TOWARD NEW INSTITUTIONAL ARRANGEMENTS: POLICY DIALOGUE AND PROGRAM DESIGN

A. Policy Dialogue

By 1985 the numerous inefficiencies described in the previous section had become widely apparent. The government had initiated the search for improving the efficiency of the public monopolistic fertilizer procurement system as far back as 1983 with the commission of a World Bank study of the sub-sector.[37] However, the opposition to changes exercised by the "fertilizer rent-seeking coalition" was, prior to 1986, too overwhelming in an environment where financial resources were plentiful. Recommendations of the World Bank 1983 report were either not accepted or ignored. By 1986, that opposition to changes began to crumble as the problem of inefficiency of the monopolistic procurement system was compounded by a lack of budgetary resources caused by the decline in world oil and agricultural commodity prices.[38] The resulting drop in the government's revenues began to force the government to examine ways to reduce budgetary expenditures.

a. The Study on Which Policy Dialogue Was Based

In 1985, MINAGRI, sensing the need for reform and perhaps sensing also that a point was being reached at which reform would become politically feasible had asked USAID/Cameroon to conduct a comprehensive review of the fertilizer sub-sector.[39] USAID/Cameroon contracted with the International Fertilizer Development Center (IFDC) to perform the study. IFDC's research was completed in late 1985, whereupon USAID/Cameroon entered into a dialogue with the government on the policy options that lasted through most of 1987. In order to be able to discuss policy reform meaningfully with the five ministries that were involved in the procurement of subsidized fertilizer, FONADER and the ONCPB (the National Produce Marketing Board), USAID/Cameroon sought and obtained the creation of an *ad hoc* interministerial committee. That *ad hoc* committee was later formalized into the interministerial Technical Supervisory Committee (TSC) which included representatives of the Ministries of Plan, Finance, Agriculture, Industrial and Commercial Development, Higher Education/Computer Services/Scientific Research and ONCPB. The TSC monitored the FSSRP's implementation from 1987 onward.

b. The Alternatives Explored and Compared

Together, USAID/Cameroon and the government explored all identifiable reform options. There were four basic options: (1) to produce fertilizer in Cameroon; (2) to continue the importation of fertilizer with the existing MINAGRI/FONADER importation/distribution public monopoly; (3) to adopt the IFDC's recommendation and import fertilizer through a newly created public-private joint venture monopoly to which a subsidy, which would be phased down through time and eventually eliminated, would be paid; or, (4) to liberalize and privatize the importation and distribution of subsidized fertilizer completely.

The option of producing fertilizer in Cameroon *versus* importing fertilizer from Europe was examined first. Based on the recommendations of the IFDC report, the option to produce fertilizer in Cameroon was discarded because it appeared to not be a viable financial or economic proposition - presumably even allowing for any cost savings from restarting the bankrupted SOCAME operation mentioned below. Indeed, even with heavily subsidized natural gas, the IFDC report pointed out that fertilizer produced in Cameroon would still cost more than fertilizer imported from Europe.[40] Indeed, Cameroon's only fertilizer production plant, SOCAME, built in the late 1970s, had gone bankrupt within two years of startup and had been shut down because of its inability to withstand foreign competition.

c. A Crucial Intra-governmental Issue: Whether to Retain and Rehabilitate, Or to Abolish the Public Monopoly?

Among the three options to import fertilizer, USAID/Cameroon and senior government officials leaned towards the option of complete liberalization and privatization, while the stakeholders in the MINAGRI/FONADER monopoly argued for the rehabilitation of the public monopoly. Presidential and ministerial level officials favored significant reform because of expected gains in efficiency and a reduction of budgetary expenditures, while the mid-level public sector bureaucrats involved in it naturally were concerned with protecting the jobs, prestige and the rents associated with the public monopoly. USAID/Cameroon believed that without a complete overhaul of the entire civil service system to instill transparency, accountability and performance, any form of rehabilitation of the public procurement system would be bound to fail in the long run. Since there was no sign of a significant restructuring of the civil service system in Cameroon in 1987, USAID/Cameroon advocated the liberalization and privatization of the fertilizer procurement system. Thus, at the onset of the policy dialogue, USAID/Cameroon was confronted with diverging interests and commitment to policy reform within the government.

The debate over restructuring the subsidized fertilizer marketing system dragged on into 1987. During the same period Cameroon's economic situation steadily worsened as oil and commodity prices continued to decline. With the economic and budgetary crisis looming and no prospect for early relief yet in sight, the government no longer had the financial resources to continue the generous fertilizer subsidy. Thus, by 1987, the required financial support for the existing MINAGRI/FONADER monopoly and for the quasi-public monopoly recommended by IFDC was no longer available. The only viable option left was substantial policy reform leading to the privatization of the fertilizer sub-sector.

d. The Link-Up With The Private Sector: An Indispensable Link Is Forged

As this option became a more certain outcome, USAID/Cameroon stepped up its dialogue with the private sector to create an informal information-gathering-and-sharing network which included local commercial banks, fertilizer manufacturers, foreign brokers, local importers, independent distributors, cooperatives, farmers and donor organizations. The role of this information network subsequently proved indispensable to the successful implementation of the FSSRP, i.e., the design of the delivery mechanisms of the FSSRP financial incentive system, information dissemination, ownership and sustainability of the FSSRP program.

B. Program Design

Once the government indicated its willingness to liberalize and privatize the subsidized fertilizer sub-sector, design of the FSSRP began in earnest. Given the shortcomings of the public monopoly and the goal of FSSRP to replace this public procurement system with a private system, the FSSRP policy reform program contained three major policy thrusts: (1) subsidy elimination; (2) economic liberalization; and, (3) privatization. The FSSRP also carried a well-defined timetable and conditionalities. The US dollar 17 million program fund (with US dollar 3.0 million being set aside for USAID/Cameroon to finance added management support) was to be disbursed in five tranches over five years. The first tranche was to be disbursed once the necessary policy liberalization measures had been taken. The remaining four tranches were to be disbursed annually upon evidence that the liberalization, deposit of subsidy fund and subsidy removal were continuing.[41]

a. Subsidy Elimination Plan. The first step in developing the subsidy elimination plan was to reach agreement over the definition of the subsidy. USAID proposed that the subsidy per unit for fertilizer be defined as a percentage of total delivered cost at farm level inclusive of marketing margins.[42] USAID also proposed that the levels of subsidy be reduced from 65 percent in 1987 to 45 percent in 1988, 30 percent in 1989, 10 percent in 1990 and zero percent in 1991. The government accepted USAID's proposed definition of the unit subsidy and agreed to completely phase out the fertilizer subsidy by 1991. However, the government wanted to keep the schedule of subsidy elimination flexible pending further investigation and research. USAID acquiesced to the government proposal for greater flexibility.[43]

b. Economic Liberalization Element. The economic liberalization element encompasses those actions necessary to dismantle the public procurement monopoly and its supporting institutional arrangements. Most of the components of this element were easy to identify based on the analysis of constraints and inefficiencies of the public procurement monopoly. It consisted of: (1) eliminating the public tender; (2) abolishing importation quotas assigned to successful bidders and of quantitative restrictions on and licensing of fertilizer imports in general; (3) removing restrictions (such as nonprice rationing on grounds other than creditworthiness) at all distribution levels; (4) ending, in particular, quantitative allocation to end-users; (5) abandoning the uniform pan-territorial pricing structure; (6) abolishing the graduated payment system to importers (of 30% in advance, 40% on delivery, and 30% payment after delivery); and (7) discarding the cumbersome system of subsidy allocation and disbursement. In addition to the above-mentioned seven policy elements, the government agreed to adopt a differentiated pricing system based on nutrient value and transport cost and a simple and transparent system of subsidy allocation and disbursement.

All of the components of the economic liberalization element were incorporated as conditionalities into the FSSRP Program Grant Agreement signed between the Cameroon government and the U.S. Government represented by USAID. But beyond removing the obvious and official economic policy constraints, there was, as it was pointed out in Chapter III, a whole set of formal and informal institutional arrangements that regulated the relationships of foreign brokers, local importers, cooperatives/ distributors, end-users and bankers within the MINAGRI/FONADER monopoly. These relationships needed to be modified or replaced, and could not be expected to be replaced by a spontaneously generated free market system springing up miraculously overnight. Therefore, there was a need for some program-supported transitional arrangements for the new private enterprise system and its nascent entrepreneurs.

As argued earlier, policy liberalization was expected not only to alter the formal policies and procedures, but to result in the almost instantaneous disintegration of the corresponding old informal arrangements as well. The void that would be left by dismantling the old policy regime would have to be filled quickly by new formal and informal institutional arrangements introduced by the privatization element. There needed to be some assurance that this would happen even if private sector capacity were weak and in need of nurturing. The prudent thing to do was to provide transitional support in any event and to do so from the very outset of the abolition of the monopoly and associated tender system. The longer that void was left unfilled the higher would be the social costs associated with market liberalization and the greater the risk of failure of the policy reform program.

c. Privatization Element. The privatization element would entail the transitional actions necessary to replace the public monopoly with a sustainable, competitive private market. For purpose of clarity, those actions can be classified into four separate categories: (1) provision of financial incentives; (2) reduction of the role of the government and, thus, the risks and uncertainties faced by private sector participants; (3) creation of new viable and sustainable, private business relationships; and (4) rapid improvement of the initially presumably very limited capacity of importers, banks, cooperatives and independent distributors to perform all of the tasks involved in fertilizer procurement and their presumably atrophied or never developed capability to work directly with one another.

Clearly the cornerstone of the new procurement system would be financial incentives that were sufficiently (but not excessively) attractive to overcome risk-averseness and induce private sector participation. Equally important would be definitive steps to reduce the actual and anticipated role of government and, thereby, the risks and uncertainties faced by private sector participants. For example, these risks include a sudden reversal of the government's decision to get out of the fertilizer procurement and distribution business or a proclivity to review and revise businesses' pricing decisions.

Given the prospect of the virtually instantaneous obliteration of all currently existing business relationships linking the various private sector participants of the "fertilizer rent-seeking coalition," steps would be needed to induce the creation of viable, efficient, sustainable and competitive private business relationships among all present and future private sector participants. And finally, to get the newly created business relationships fully operational and to enhance contestability and competition, the privatization element had to promote private sector capacity building.

i. Incentives. To improve financial incentives for private participation in fertilizer procurement and marketing, and to enhance the results of this participation by guiding it with more market-compatible price signals, this component of the program was designed to introduce the following innovations: (1) differentiated prices for subsidized fertilizers based on nutrient value and transport costs according to a government-published price schedule in lieu of the uniform prices that had prevailed under the public monopoly; (2) subsidy disbursements on a scale phased down through time, but predictably so, without risk and uncertainty as to amount and timing; and (3) loans at preferential interest rates.[44]

The principal incentive to the private sector is price. From the private sector's standpoint, the major shortcoming of the uniform pricing structure was that it made no provision for the costs of distribution beyond the wholesale level or for profit margins of any kind, and thus discouraged fertilizer dealers from attempting to supply far-off locales. The uniform pricing structure had another serious shortcoming as well, in that it promoted inefficient fertilizer use by farmers. All fertilizers, regardless of composition and nutrient value, were sold for the same price. And finally, the fixing of the crop year's uniform prices was the prerogative of the Directorate of Prices, Weights and Measures (DPWM) of MINDIC which exercised that prerogative with the stated intent of protecting farmers' welfare. The reality was, however, that the DPWM exercised that price fixing prerogative to improve the welfare of members of the "rent-seeking coalition" which controlled the DPWM.

Although the differentiated pricing system with a government-published price schedule adopted by the FSSRP in 1987 was almost certainly a considerable improvement, from an efficiency perspective, over uniform pricing, it was not the true market-based pricing advocated by USAID/Cameroon. However, true market-based pricing had to be an ultimate, not an immediate, goal. The government was not willing to move immediately to full decontrol for fear that combining the subsidy reduction with full market liberalization at this point would raise the price of fertilizer and, thus, would lower farmers' welfare and/or ability to purchase fertilizer, thereby reducing its use. Arguing that since it was financing the subsidy, the government insisted on maintaining some control over prices so as to ensure that the subsidy it was paying was in fact benefiting the farmer. Thus, as a compromise, USAID/Cameroon and the government agreed to incorporate into FSSRP a pricing structure that established target ceiling prices for each province (to account for differences in transportation and distribution costs) and for each fertilizer type within each province (to account for differences in nutrient content).[45]

Besides price, the FSSRP provided two other financial incentives to private sector participants: the subsidy fund and the credit fund. The subsidy fund (capitalized annually with resources from the government's budget) enabled commercial banks and importers to reduce the input of equity funds (collateral commercial banks demanded to make loans or provide letters of credit are means to cover commercial risks). It, thus, reduced commercial risks and the "cost-of-working-capital-inclusive" wholesale prices of all grades of fertilizer to distributors and retail price to farmers. The credit fund (capitalized with the local currency generated by USAID's FSSRP grant money) provided working capital at preferentially low interest rates to fertilizer importers and distributors and redressed growing liquidity problems in the commercial banking structure caused by the continuing economic recession in Cameroon.

ii. Role of the Government. To reduce its role in the procurement of fertilizer and thereby the related risks and uncertainties faced by private sector participants, the government made commitments that: (1) the government would be disengaged from the day-to-day management of the FSSRP subsidy and credit funds; (2) the FSSRP subsidy and credit funds would be managed by a fiduciary bank under contract to the government; and (3) the management of FSSRP funds would be totally transparent with clearly identified and widely publicized criteria and procedures for eligibility, earmarking and disbursement of funds.[46]

iii. New Business Relationships. To aid the creation of new viable, competitive and sustainable business relationships, the FSSRP privatization element introduced several operational and financial working tenets which were at the heart of the privatization of the fertilizer market in Cameroon. These working tenets were the following: (1) all procurement activities should be carried out by private operators; (2) all commercial risks associated with procurement of fertilizer under FSSRP would be borne by participating commercial banks and their customers; (3) all FSSRP financial transactions would be channeled through participating commercial banks; and (4) the fiduciary bank which managed the FSSRP subsidy and credit funds on behalf of the government, to avoid conflict of interest between the fiduciary bank and participating commercial banks and the government, could not participate in the financing of fertilizer importation and distribution.

Those working tenets were translated into reality through the TSC-Fiduciary Bank contract, a Memorandum of Understanding between the Fiduciary Bank and Commercial Banks and the General Information Pamphlet which recorded the rules and procedures for fertilizer dealers to have access to the FSSRP credit and subsidy funds. Those documents will be discussed in greater detail in Chapter V.

iv. Capacity Building. Given the limited capacity of the private sector under the public monopoly and the far greater demands on business and sales acumen of the privatized regime, it became apparent that private sector capacity building would be necessary. This would take two forms. One form was widespread information dissemination. Dissemination was needed to inform the private sector of the government's intention to liberalize and privatize the fertilizer sub-sector. As a next step, information had to be disseminated to various potential participants -- commercial banks, importers and distributors -- on how to become involved in FSSRP and the privatization of the fertilizer market. The second form was informal advisory services to the private sector. For USAID/Cameroon, this was simply an extension of its role as technical advisor to the government. The TSC and USAID/Cameroon also sponsored fertilizer marketing and business skills training for potential participants to FSSRP.

To build the capacity of private sector operators to perform all tasks associated with tprivate procurement of fertilizer, the FSSRP instituted a series of regularly scheduled workshops and annual reviews and two technical management/ information centers.[47] These provided information on FSSRP and on successful practices to newcomers.

V. IMPLEMENTATION: INTRODUCTION OF THE NEW INSTITUTIONAL ARRANGEMENTS

The implementation phase of the FSSRP policy reform program began on September 29, 1987 with the signing of two agreements between the government and USAID/Cameroon. One of the agreements was a US $ 17 million program grant. The program grant stipulated that all of the liberalization actions enumerated in the FSSRP economic liberalization element had to be accomplished before disbursement of the first tranche of funds. The grant also contained a condition related to continued liberalization and subsidy removal that had to be fulfilled before the disbursement of the subsequent tranches of US dollars. Finally, the program agreement also contained clauses related to the privatization element, notably: the acceptance of differentiated pricing, the unit subsidy structure and the management of the subsidy and credit funds by a fiduciary bank as advocated by USAID/Cameroon. The second agreement was originally a US $ 3 million grant. It was reduced to US $ 1.5 million in 1990.[48] In practice, the funds were used principally to cover some of USAID/Cameroon's program management costs, to finance annual reviews and training sessions and to support various other activities designed to build the capacity of the private sector.

a. Implementing the Economic Liberalization Element

Given the conditionality attached to the disbursement of the first tranche of program funds, the first implementation priority for the government and USAID/Cameroon was satisfying the conditions precedent and, in so doing, dismantling the public monopoly. The dismantling of the public monopoly occurred quite rapidly as evidenced by the satisfaction of a large set of specific conditions precedent. Since the public sector would no longer be buying fertilizer, no more public tenders for importation of fertilizers were issued. Instead there would be reliance on private tenders. Importation quotas for fertilizer and restrictions on its distribution were eliminated. Quantitative allocations to cooperatives and other end-users were abolished along with the uniform pricing system and the graduated payments system and it was agreed to discard the cumbersome system of subsidy allocation and disbursement. The conditions precedent for the first disbursement were thus essentially met once the program agreements were signed on September 29, 1987.

b. Implementing the Subsidy Elimination Element

It took the government until January 1988 to come up with a subsidy removal plan that was consistent with the FSSRP Program Grant Agreement with appropriate definitions of subsidy, schedule of subsidy reduction and elimination and method of subsidy disbursement.[49] Implementation of the subsidy elimination element was an on-going process that started in 1988 and went on until 1992 and, then 1994. Originally, the TSC scheduled the complete elimination of the fertilizer subsidy in 1991. However, due to unforeseen adverse economic conditions, such as lower than anticipated benefit/cost ratios on coffee and farmers' lack of liquidity, both the TSC and USAID/Cameroon had decided that the subsidy was to be maintained until early 1994.[50]

Given the acute budgetary problems plaguing the government during the 1988-94 period, the government financial contribution to the FSSRP subsidy fund was commendable. The government deposited FCFA 2.0 billion (US$ 6.6 million) in the FSSRP subsidy fund for the initial 1988-89 campaign. For the 1989-90 campaign, the government deposited FCFA 1.9 billion (US $ 6.3 million) in the FSSRP subsidy fund and for the 1990-91 and 1991-92 campaigns, the government deposit into the FSSRP subsidy fund was FCFA 500 million (US $ 2.0 million). For the 1992-93 and 1993-94 campaigns, the government net deposit into the FSSRP subsidy fund was FCFA 200 million (US $ 0.8 million) (See Table VIII and endnotes for details on subsidy elimination data).[51] While the government budgetary efforts under FSSRP during the 1988-94 period were significant, it should be pointed out that FSSRP gave the government ample incentive to support the policy reform program for it saved the government a great deal of money. During 1987-88 (the last year of the public monopoly), the government had had to spend FCFA 6.0 billion (US $ 20.0 million) to subsidize fertilizer at the subsidy rate of 65 percent of total delivered cost for a total of 65,000 tons imported.

All actions to implement the economic liberalization and subsidy elimination elements were completed in January 1988, and the transition from public monopoly to privatized system was publicized in the official media in the first months of 1988 in preparation for the initial FSSRP campaign.

c. Implementing the Privatization Element

Compared to the ease with which the economic liberalization and subsidy elimination elements were implemented, it was much more difficult and time consuming to implement the FSSRP's privatization element. The Technical Supervisory Committee and USAID/Cameroon had intended to launch the FSSRP in January 1988 in order to make fertilizer available for use during the applications of March-April and September-October in that same year. However, it took an additional four months, until May 1988, to clearly define and operationalize the new business relationships among the various private sector participants. The rules and procedures for access to and disbursement of the FSSRP subsidy and credit funds for the private sector to commence signing contracts was put into place at that time. It took until August 1988 for the FSSRP to be fully operational. As a result, fertilizer only reached the countryside around November 1988. Fortunately, this delay did not adversely affect farmers as, ironically, with the MINAGRI/FONADER system deteriorating, fertilizer deliveries became progressively later. The 1986-87 MINAGRI/FONADER tenders ultimately resulted in the delivery of the bulk of the 65,000 tons imported arriving in late 1987 and early 1988, available at the farm level for the 1988-89 cropping season.[52]

Part of the reason for the delay during the first FSSRP campaign was that the three key tasks in operationalizing the new privatized procurement system were much more technically demanding than dismantling the vestiges of the public monopoly. Each task necessitated considerable staff work by USAID/Cameroon to generate realistic proposals and get them ratified by the TSC. The specific tasks included: (1) establishing the differentiated pricing structure with adequate financial incentives; (2) developing the management contract between the TSC and the fiduciary bank so as to minimize government intervention into the day-to-day management of the program; and (3) designing the rules and procedures governing access to and disbursement of the subsidy and credit funds that promoted and strengthened the critical role of commercial banks in the financing of the importation of fertilizer .

However, the delay during the 1988-89 FSSRP campaign was just a minute part of the entire difficulty encountered in privatizing the fertilizer market in Cameroon once all policy distortions were removed from the sub-sector in September 1987. In addition to the drafting and ratification of the three key documents mentioned above which defined the business relationships among private sector participants and the government, there was the need to introduce those documents among the participants, to monitor their application and to identify areas of improvement. The work of introducing the new institutional arrangements began with the 1988-89 campaign and went on until the program ended in June 1994. That work was greatly facilitated by the informal information network USAID/Cameroon had built up in 1986 to 1987 during the dialogue and design of the FSSRP policy reform program. Those three key documents represented the underpinnings of the new privatized procurement system - a close examination of their content, development and revisions will help the readers understand the process of privatization.

i. Establishing Differentiated Pricing. To design the differentiated pricing system, USAID/Cameroon had to collect data on fertilizer import prices, port handling costs, transport and storage costs and profit margins so as to arrive at the total delivered costs to the farmers. USAID/Cameroon was able to get accurate data through the informal private sector information network it had developed. However, these empirically derived costs had to be reconciled with those which were generated with the methodology used by MINDIC's DPWM.

Following the DPWM's regulations, fertilizer was subject to "administered pricing" ("*homologation des prix*") methodology.[53] Applying this methodology, fertilizer retail price to the farmers in a given locality was determined to be the import Douala price plus 45 percent of that price as gross margin plus transport cost.[54] The transport costs were determined as the product of a set of distances to provincial centers multiplied by a set transport rates ("*valeurs mercuriales*").

Because fertilizer retail prices generated by the DPWM methodology were lower than USAID/Cameroon's estimates of actual total delivered costs, it appeared that the DPWM's proposed administered pricing structure would not provide sufficient financial incentives for the private sector. Consequently, USAID/Cameroon proposed to the TSC, and the TSC agreed to seek, a relaxation of DPWM's regulations. USAID/Cameroon then entered into negotiations with the DPWM on behalf of the TSC. After almost four months of negotiations, a compromise was reached which satisfied members of the DPWM by retaining an administered pricing methodology, but ensured that final destination prices would not be set too low from an incentives viewpoint as a result of its application.

Although the administered pricing methodology was retained, sufficiently generous margins of error were incorporated in estimating the import price and distances from the port of Douala to the final destination. These ensured that the resulting prices that could be charged would be at least as high as those developed through USAID/Cameroon's empirically based calculations. The Technical Supervisory Committee approved that USAID-MINDIC compromise and the first set of differentiated prices for subsidized fertilizer was published in the MINPAT/MINDIC interministerial decree of 9 May 1988.

The FSSRP operated for two campaigns under MINPAT/MINDIC orders fixing differentiated ceiling target farmgate prices for subsidized fertilizers as a means of attempting to protect farmer's welfare.[55] At the end of the 1989-90 FSSRP campaign, the review of the empirical evidence gathered during the 1988-89 and 1989-90 campaigns by the FSSRP program showed that actual retail prices were 85 percent of the government determined prices.[56] That evidence had convinced private sector participants and TSC members that, in lieu of government determined prices, competitive market forces at all levels of the marketing system were working to protect farmer's welfare. Thus, during the second FSSRP Annual Review/Workshop, private sector participants recommended that the MINPAT/MINDIC orders fixing fertilizer prices be abolished and that fertilizer prices be totally liberalized. The Technical Supervisory Committee accepted the private sector recommendation and the government completely liberalized fertilizer prices for the 1990-91 FSSRP campaign.[57]

ii. Developing the Management Contract for the FSSRP Funds. Although the management contract between the fiduciary bank and the TSC was a fairly modest document, its significance along with that of the appended "Memorandum of Understanding between Fiduciary Bank and Commercial Bank" were far greater. The Technical Supervisory Committee-Fiduciary Bank contract formalized the <u>new</u> institutional relationship between the public and private sectors in the fertilizer sub-sector.[58] The contract ensured that the government was no longer directly involved in the day-to-day management of either the subsidy fund or the credit fund. The contract and its appended Fiduciary Bank-Commercial Bank Memorandum of Understanding identified the fiduciary bank as a management agent working on commission for the Technical Supervisory Committee with no possibility in getting commercially involved in the fertilizer sub-sector.

The memorandum of understanding, signed between the fiduciary bank and each of the various participating commercial banks, explicitly stated that commercial banks bore all risks related to the proper application of the FSSRP subsidy fund. Commercial banks were also responsible for repayment of FSSRP credit fund disbursed by the fiduciary bank to businessmen through the commercial banks. Thus, the memorandum of understanding placed all decision making concerning the execution of all fertilizer contracts on/in the hands of participating commercial banks. Thus, these two documents together established the framework within which new institutional arrangements were developed between the fiduciary bank, participating commercial banks, importers, distributors and fertilizer end-users. Those new institutional arrangements have supported the privatization of the fertilizer sub-sector in Cameroon since 1987.

The Fiduciary Bank management contract and the memorandum of understanding were developed by USAID/Cameroon and ratified by the TSC. The management contract was not modified from its inception in 1988 to July 1992. There were some minor modifications to the memorandum of understanding. Working together with USAID/Cameroon, the TSC had chosen the Bank of Credit and Commerce-Cameroon (BCCC) to be the fiduciary bank for FSSRP.[59] Given the problems in the banking sector, the need for commercial banks to issue letters of credit acceptable to foreign banks and the necessity to protect the FSSRP's limited subsidy and credit funds, the TSC also had to select participating commercial banks. Once selected by the TSC, each participating commercial bank had to sign a memorandum of understanding with the fiduciary bank to ensure that the commercial bank understood FSSRP, its own responsibility under FSSRP and its relationships vis à vis the fiduciary bank and its customers. From 1987 to 1994, participating commercial banks under FSSRP were the largest and best performing banks in Cameroon: BICIC, SGBC, Méridien, BIAO, Crédit Agricole du Cameroon, CCEI, Amity Bank and SCB-Crédit Lyonnais. With that number of commercial banks, there was enough competition at the banking level under FSSRP.

iii. Designing Access and Disbursement Rules to Subsidy and Credit Funds. The rules and procedures of access to the limited preferential FSSRP funds operationalized the new FSSRP institutional framework with its new institutional arrangements between the government, the fiduciary bank, commercial banks and private sector operators.

Given the complexity of the task, USAID/Cameroon's strategy was to proceed in iterative steps that moved from general operational propositions to increasingly specific operational rules. In this process, USAID/Cameroon was guided by the advice provided by the TSC and the informal private sector network especially the bankers.[60]

Thus, USAID/Cameroon first studied the physical flow of fertilizer and designed a preliminary set of financially motivated institutional arrangements that would support that physical flow. These preliminary arrangements included simple statements about the roles of the fiduciary bank, the commercial banks, characteristics of the credit lines and a simple method for disbursing the subsidy fund. These preliminary ideas were refined and elaborated iteratively until a fairly detailed set of rules and procedures were developed covering: (1) the relationship between the fiduciary bank and participating commercial banks; (2) the relationship between participating commercial banks and importers and distributors; (3) the criteria for determining whether an importer or distributor was eligible for access to the limited preferential credit and subsidy funds; (4) the procedures and timing for granting, earmarking and disbursing subsidy funds; and, (5) the conditions attached to the importation and distribution loans (maturity, interest rates and debt/equity ratios) as well as the procedures and timing for granting, earmarking and disbursing loan funds.

In an attempt to provide information and lower transaction costs to private sector participants, all of these rules and procedures were first published in a General Information Pamphlet by the TSC in April 1988. At the end of the 1988-89 campaign, the April 1988 General Information Pamphlet was significantly revised based on the comments and recommendations presented by bankers, importers, distributors and cooperative managers during the first FSSRP Annual Review and Workshop. Those revisions were aimed at rendering the rules and procedures clearer and more efficiently operational to private sector participants. At the end of the 1989-90 FSSRP campaign, the recommendations for changes and revisions of the February 1989 General Information Pamphlet were limited. From the 1990-91 FSSRP campaign onward, the rules and procedures operated to the satisfaction of the TSC, USAID/Cameroon and all private sector participants with some occasional fine-tuning during the Annual Reviews and Workshops.

VI. IMPACT ASSESSMENT

The impacts of the FSSRP program can be divided into: (1) increased and more meaningful private sector participation in fertilizer marketing; and (2) efficiency gains that were associated with the increase in private sector participation.

A. First Impact: Increased Private Sector Participation

By early 1988, a series of events had taken place to allow the private sector to effectively participate in the FSSRP program. These events included the announced and effective withdrawal of the government from the fertilizer sub-sector and the deposit of money into the FSSRP subsidy and credit funds with clearly identified access rules and procedures. They also included partial liberalization of prices for subsidized fertilizer and clear delineation of the new business relationships between commercial banks, importers and distributors. From the outset of the FSSRP in early 1988 to June 1994, private sector agents carried out every procurement activity and executed private contracts signed among themselves. In addition, the data collected show that private sector participation in the FSSRP was, during that period, sufficiently active and high at every level of the marketing system to generate contestability and competition, and that it produced significant efficiency gains.

a. A Fiduciary Bank Selected. In 1988, the TSC chose the Bank of Credit and Commerce Cameroon (BCCC) to be the fiduciary bank that managed the FSSRP subsidy and credit funds. The performance of BCCC during the period 1988-92 was beyond reproach even though the shutdown and liquidation of the Bank of Credit and Commerce International (BCCI) in 1991 had caused severe liquidity problem for BCCC. In 1992, even though it was technically bankrupt, BCCC kept the FSSRP campaign going by continuing, under the stewardship of the TSC and the Ministry of Finance, to disburse subsidy and credit funds to commercial banks and importers under the conditions defined by the TSC for the 1991-92 campaign.[61]

In August 1992, Standard Chartered Bank-Cameroon (SCBC) absorbed BCCC and was chosen as the new fiduciary bank for FSSRP by the TSC. The new management contract between the TSC and Standard Chartered Bank was only a slightly modified version of the initial TSC-BCCC management contract.[62]

b. Accredited Commercial Banks. As pointed out earlier, participating commercial banks would play a critical role in FSSRP. Banks were invited to become accredited to participate in the FSSRP. Within the FSSRP institutional framework, participating commercial banks assumed all commercial risks involved in the importation of fertilizer, and, thus, freely selected their customers based on the bank's own assessments of their customers' marketing/financial plans and credit worthiness. Within the FSSRP institutional framework, that critical and central role of commercial banks was strengthened and reinforced by the rules of access and disbursement of FSSRP funds. Indeed, under FSSRP rules and procedures, commercial banks earmarked and received on behalf of their customers all FSSRP subsidy and credit funds (kept in a separate account or accounts) disbursed by the fiduciary bank.

As was noted earlier, there had been no effective and meaningful business involvement of local Cameroonian banks under the old public monopolistic procurement system. In contrast, there were four accredited commercial banks operating in the FSSRP during the 1988-89, 1989-90 and 1990-91 campaigns, five accredited commercial banks during the 1991-92 campaign, and three during the 1992-93 and 1993-94 campaigns (See Table III).

Nominal Participation and Effective Participation by Banks

The participation of numerous commercial banks in FSSRP from the beginning onward was indicative of competition at the banking level from the very outset of the privatization of the fertilizer sub-sector. It should be noted, however, that not all commercial banks which subscribed to the FSSRP program effectively operated in the program in each and every year of the program by financing and executing private importation contracts on behalf of their chosen customers. For example, during the 1988-89 FSSRP campaign, only two out of four accredited commercial banks (BICIC and Meridien) had effectively participated in the FSSRP. Four out of four banks that had signed up with the FSSRP had effectively participated in the program during the 1989-90 campaign. During the 1990-91 campaign, only one out of four accredited banks effectively participated in the FSSRP. In 1991-92, four out of five accredited banks effectively participated in the FSSRP. Together those four banks executed 9 importation contracts for a total of 31,800 tons of fertilizer imported. For further details see endnote).[63]

In 1990, the BIAO bank went bankrupt. While the bankruptcy of BIAO was traceable to financial problems related to the marketing of cocoa and coffee,[64] not fertilizer, BIAO's failure had repercussions in the fertilizer sub-sector. It partially caused the bankruptcy of one of the more aggressive importers under the FSSRP (CAMATREX, a customer of both BIAO and Meridien in 1990). In addition, it caused financial problems for one of the more important fertilizer distributors under the FSSRP North West Cooperative Organization, NWCA, a customer of CAMATREX in 1990). This banking problem caused a confidence problem in the fertilizer sub-sector and partially explained the low importation of fertilizer in the subsequent year. The Meridien Bank finally absorbed the financially troubled BIAO in 1991. However, CAMATREX was bankrupt and CAMATREX and NWCA problems were still tied up in court in June 1994.[65]

While FSSRP participating commercial banks differed in size and in risk assessments, they all shared some common characteristics and business practices. They were all extremely risk-averse and consistently required as guarantees from their customers cash or near-cash collateral equal to 100 percent of the value of the letter of credit in financing fertilizer importation under FSSRP. This collateral included stand-by letters of credit from a credible foreign bank, promissory notes from preferred local customers and the insured fertilizer shipment.[66]

c. Active Importers. The number of active importers operating in FSSRP during the 1988-94 period was large, fluctuating between 10 and 14. Some of those active importers (such as FERIDA SA and IBEX SARL) were new to Cameroon and its fertilizer market. Those importers were incorporated in Cameroon because they wanted to take advantage of the opportunities offered by the FSSRP.[67] In addition, among the 10-14 active importers few were from the former public monopolistic procurement system. Indeed, out of the total of some forty so-called importers (of which the majority were "mail box agents") operating under the MINAGRI/FONADER monopolistic procurement system, only three were actually active in the FSSRP (ADER, AMINOU and the owner of HEMASON International) at the outset of the program. Two importers, ADER and AMINOU, were importing directly for their own account.[68] One importer, Hemason International, was operating under a joint venture (CAMATREX) with businessmen from the US.[69] A fourth importer of the former MINAGRI/FONADER procurement system, PELENGET, was finally able to actually finance and import fertilizer on his own account under the FSSRP in 1991.[70]

There were numerous other importing companies operating under the MINAGRI/FONADER monopolistic procurement system (such as ATCIA, GROUPE-ONE, ADIR, WANDA and BELA NKE) which attempted to convert themselves from public monopolistic practices to competitive marketing from the outset of the FSSRP in 1987. However, their attempts of conversion were not yet successful as of June 1994. Participating commercial banks indicated that none of those former MINAGRI/FONADER importers were able to submit marketing and financial plans that were acceptable to the banks. In addition, none of the importers mentioned above were either able or willing to put up their own funds as collateral. Furthermore, prices offered by those importers were not competitive for they continued to procure fertilizer through brokers instead of buying directly from manufacturers.[71]

Only four out of forty importers operating under the MINAGRI/FONADER monopolistic procurement system were able to convert themselves into importers in the privatized procurement system of FSSRP. This fact pointed to the weak capacity of the private sector in the fertilizer sub-sector to cope with private and competitive marketing practices. There was a need, therefore, for capacity building to enable local businessmen and companies to benefit from the privatization of the sub-sector. In so doing, the policy reform program would also generate more competition in the market and more supporters for the new liberal policy regime.

The number of active importers operating in FSSRP fluctuated between 10 to 14 during the 1988-94 period. However, due to competition, not every active importer was effectively able to import fertilizer - for not every importer was able to secure contracts with wholesale distributors and present financially bankable marketing plans to commercial banks.

Indeed, the competition among importers was fierce, especially for large contracts with the Unions of Cooperatives of the Littoral, West and North West Provinces (UCAL, UCCAO and NWCA respectively). During the first four years of the FSSRP, contracts between unions of cooperative and importers were for amounts from 8,000 to 15,000 tons per year, with an estimated non-subsidized CIF landed Douala value ranging from FCFA 696 million to FCFA 1,304 million (US$ 2.8 million to US$ 5.3 million). In every campaign from 1988-89 to 1991-92, as many as twelve bidders participated in each of the private tenders organized by the Unions of Cooperative of the aforementioned provinces. The differences in asking prices per ton submitted by importers participating in the private tenders varied significantly (up to 15-50 percent between the lowest and highest asking prices).[72]

The majority of the union of cooperatives contracts were mostly awarded to new importers. Those newcomers to Cameroon and to the FSSRP were of several categories: (1) joint ventures between Cameroonian fertilizer importers that had previously operated under the old system and businessmen from the U.S., (e.g. the case of CAMATREX SARL); (2) joint ventures between US businessmen and local businesspersons with no prior involvement in fertilizer (e.g. the case of IBEX SARL); and, (3) new, totally privately owned Cameroonian companies (e.g. FERIDA SA). Those new importers were competing with already established importing companies such as: (1) one hundred percent French-owned companies (like ADER SA); and, (2) importers previously operating in the MINAGRI/FONADER monopolistic procurement system (like AMINOU SA and PELENGET SARL). Those newcomers brought know-how into the fertilizer market, but brought little equity funding with them. Figures in Table IV show that the amounts of equity funds owned by the new importers in FSSRP were insignificant and represented only 0.3-4.6 percent of the average CIF landed Douala value of a typical 5,000 ton contract that they wanted the commercial banks to finance. Limited equity funds owned by importers was one of the reasons offered by bankers for requesting cash or near-cash (e.g., the insurance value of the fertilizer shipment could not be used as collateral) guarantees equal to 100 percent of the CIF landed Douala value of the fertilizer shipment.

Limited equity funds did not, however, prevent importers under FSSRP from meeting bankers' high cash or near-cash guarantee requirements. For each importation contract executed during the first three 1988-89 to 1990-91 campaigns, importers (in agreement with their customers, the wholesale distributors) presented to commercial banks the FSSRP subsidy related to the fertilizer shipment. They also presented either a stand-by letter of credit from a credible foreign bank or an irrevocable promissory note issued by the local distributors to cover the guarantee of 100 percent of the CIF landed Douala value of the shipment required by all commercial banks participating in FSSRP. By design, the fertilizer subsidy was determined each year by the TSC and was disbursed directly by the fiduciary bank to the commercial bank of the importer.[73] It could be argued that for the first three FSSRP campaigns, FSSRP subsidy funds together with funds put up by either the foreign banks or the union of cooperatives financed the importation of fertilizer. There were practically no equity funds supplied by the new importers to finance the importation of fertilizer under FSSRP during the first three campaigns running from 1988-89 to 1990-91. The data showed that in the fourth 1991-92 FSSRP campaign, importers had begun to put forward their own funds in addition to the FSSRP subsidy. They also put forward either the foreign bank's stand-by letter of credit or the distributor's irrevocable promissory note to meet the 100 percent cash or near-cash guarantee required by commercial banks.

Data in Table V show the relationships between FSSRP subsidy, foreign banks' stand-by letters of credit (L/C's), distributors' promissory notes and importer's equity funds compared to CIF value of fertilizer shipments. During the first three FSSRP campaigns running from 1988-89 to 1990-91, the financing of the importation of fertilizer was accomplished exclusively with the FSSRP subsidy and funds from foreign banks and/or distributors. During that period, as the subsidy declined, the financial input made by foreign banks/wholesale distributors increased in relative terms. It was only in the fourth FSSRP campaign of 1991-92 that there was some financial input from importers.[74] In that perspective, the FSSRP policy reform program succeeded in transforming the fertilizer subsidy from a source of corruption and inefficiency during the years prior to 1987 to a key financial element which promoted the privatization of the fertilizer sub-sector from 1988 onward.

While the new importers did not initially bring any equity funds, they brought valuable technical know-how, such as knowledge of the design of financial/marketing plans, contacts with foreign manufacturers/suppliers, and knowledge of the logistics of fertilizer procurement and negotiating skills, that enabled them to work with commercial banks. The new importers' command of such technical know-how enabled local commercial banks to be involved in a critical and meaningful way in the privatization of the fertilizer market in Cameroon. For, from the inception of the FSSRP in 1988, the participating commercial banks had always screened private sector participants, reviewed marketing and financial plans submitted by participants, selected their own customers and supervised the execution of the importation contracts.

The existence of those new importers in the Cameroon fertilizer market at the outset of the FSSRP in 1988-89, demonstrated the ease of entry into that market. That characteristic illustrates the high degree of "contestability"[75] and competition that existed in the fertilizer market in Cameroon through the FSSRP. The contestability and competition in that market explained, as it will be shown subsequently, the gain in efficiency at the importation level under the FSSRP.

Several other elements deserve mention at this level of analysis. These are the withdrawal of foreign brokers and manufacturers and the critiques presented by the forty plus "so-called" importers. Several large foreign brokerage companies (BOLISSE and UNIFERT-Europe) and manufacturers (KEMIRA and UNIFERT-Europe) ceased to operate in Cameroon after the liberalization of the fertilizer market. Many reasons were given and could be inferred through observations. Some foreign brokers (such as BOLISSE) indicated that with market liberalization came increased risks due to the lower credit worthiness of the new customers (going from having the government as customer to having Unions of Cooperatives as customers). Risks also originated from the extension of the use of brokers' funds beyond importation for longer periods of time (going from using their fund to finance exclusively the importation to extending their financial involvement beyond importation to include distribution). Such increased risks were not deemed acceptable to some foreign brokers.[76] Thus, they withdrew from the Cameroon market after 1987. An additional reason for their withdrawal was the existence of significant unpaid arrears owed by the MINAGRI/FONADER monopolistic procurement system.[77]

No importers were able or willing to use the FSSRP importation credit line at the preferential rate because of the commercial banks' 100 percent cash or near-cash guarantee requirement for the importation loan. The reasons given by commercial banks for this apparent risk-averse behavior were the same as those given for the issuance of letters of credit to import fertilizer. The FSSRP requirement that the importer take out an importation/distribution loan to have access to the FSSRP subsidy fund, had the unintended effect of forcing commercial banks to put the importation loan in escrow accounts. However, such practices increased the banks' liquidity and earnings because the FSSRP loan fund had a preferential rate.[78] For those reasons, such practices also increased the incentives the commercial banks had to participate in the FSSRP. It should be pointed out that all FSSRP importation loans issued by the fiduciary bank from 1988 to June 1994 were repaid on time and in full by all participating commercial banks.[79]

d. Active Distributors. The number of active distributors operating under the FSSRP was large, going from six in the first 1988-89 campaign to 22 in the fourth 1991-92 campaign. However, due to competition, the number of distributors that had effectively distributed fertilizer under the FSSRP was smaller than the number of active distributors. For, during that period, not all active distributors were able to find viable users/customers under the new liberal policy regime. For example, of the total of six active distributors during the 1988-89 campaign, only four had effectively distributed fertilizer. Of the entire pool of 22 active distributors during the 1991-92 campaign, only 20 had effectively distributed fertilizer (See Table III which shows the progression of active distributors and those which had actually imported).

The very first effective distributors under the FSSRP were the unions of cooperatives, for they had been the principal distributors under the MINAGRI/FONADER monopolistic procurement system, had warehouses and had readily identifiable clients, their members. However, the capacities of the unions of cooperatives to cope with liberal and competitive fertilizer procurement practices varied tremendously. Of the total seven unions of cooperatives in the seven provinces covered by the FSSRP, only three unions of cooperatives - those of the Littoral, West and North-West Provinces (UCAL, UCCAO and NWCA) - were able to successfully negotiate contracts with importers in the first 1988-89 FSSRP campaign. The fourth effective distributor under the FSSRP in 1988-89 was the COOPROVINOUN cooperative in the West Province. The unions of cooperatives of the Center and South-West Provinces were not able to make significant purchases for distribution under the FSSRP until 1990, after a lot of capacity building effort devoted by the TSC and USAID/Cameroon had been done. The unions of cooperatives of the East and South provinces were not able, until July 1992, to purchase fertilizer for distribution under the FSSRP in spite of a great deal of capacity building effort expended by the TSC and USAID/Cameroon.

With the second, 1989 - 1990, campaign under FSSRP, competition increased significantly at the wholesale distribution level in the fertilizer market as "for-profit" distributors (as opposed to non-profit cooperative distributors) effectively became buyers and sellers in the very same provinces where unions of cooperatives and individual cooperatives operated. The number of effectively distributing "for-profit" distributors went from zero in 1988-89 to four in 1989-90 and eleven in 1990-91 and 1991-92. During the last two years of the program, the numbers of distributors, particularly "for profit", expanded at such a rate that it was not possible to continue to track their numbers. In addition, a proliferation of secondary (i.e., small retail shops that purchase from importers or large distributors and stock 5-20 tons at a time for resale) and tertiary retailers (individuals selling in repackaged lots, usually 1 kg or less, or by the cup) occurred in the heavier use areas.[80] During the last annual assessment performed in 1994, the authors observed over thirty secondary retailers. The number of tertiary sellers likely numbered in the hundreds. These smaller-scale entrepreneurs did not exist during MINAGRI/FONADER days and were actively discouraged by those who controlled fertilizer distribution (See Table III). With the higher number of distributors came greater access for users who were not members of cooperatives and a more diversified product. Indeed, while subsidized fertilizers were usually sold in 50-kilogram polyurethane bags until 1990, one- or two-kilogram bags made their appearance in the markets of the West Province during the 1991-92 campaign.[81]

Finally, none of the effective distributors was able to access and, thus, use the preferential FSSRP distribution line of credit. Both distributors and bankers stated that the reason for the lack of access was the 100 percent cash or near-cash guarantee requirement imposed by commercial banks. This high guarantee requirement was linked to the lack of effective enforcement of property rights and contract law.

B. Second Impact: Efficiency Gains

With liberalization and privatization of the fertilizer market came both quantitative and qualitative gains in efficiency. These gains occurred at all levels of the marketing system in spite of the shrinking of the market caused by adverse international conditions (e.g. low coffee and cocoa world market prices) and an overvalued exchange rate. During the first five years of FSSRP implementation, the producer prices for cocoa and coffee (i.e., the principal determinants of the demand for fertilizer) each declined by approximately 50 percent.[82] As a consequence, the amounts of fertilizer imported declined sharply two years after the implementation of FSSRP (See Table VI).[83] The amounts of fertilizer imported have an impact on gains in efficiency because of economies of scale.[84]

In spite of the shrinking market, the overall gain in efficiency as measured by the unsubsidized average total delivered costs of fertilizer at the farm-gate level was equal to 42.0 percent for the period 1988-93. The average unsubsidized total delivered cost under the MINAGRI/FONADER monopolistic procurement system had been FCFA 133,600 per ton in 1987-88. The liberalization and privatization of the procurement of subsidized fertilizer under FSSRP prompted that figure to drop further during each campaign to FCFA 76,570 per ton in 1992-93 (See Table VII).[85] The magnitude of the gains in efficiency was more significant at the importation level than at either the distribution level or the utilization level, however.[86]

a. Importation Level. Efficiency gains at the importation level, as measured by comparing annual average CIF landed Douala costs,[87] were significant during the 1988-93 period, amounting to approximately a 48.7 percent reduction in costs over this whole period. However, the bulk of the gains in efficiency occurred in the first 1988-89 FSSRP campaign immediately following the government decision to substitute private importers for the MINAGRI/FONADER monopoly under the FSSRP policy reform program. The MINAGRI/FONADER monopoly imported subsidized fertilizers at an average CIF landed Douala cost of FCFA 97,600 per ton (unsubsidized cost) in 1987-88 during its last year of operation. Private importers, however, brought, under competitive pressure, subsidized fertilizers into Cameroon at an average CIF landed Douala cost of FCFA 56,512 per ton (unsubsidized cost) in 1988-89 during the first year of FSSRP operation. The gain in efficiency at the level of importation is estimated at 42 percent during the first FSSRP campaign. Following the 1988-89 campaign, there was no more significant gain in efficiency at the importation level during the three successive FSSRP campaigns.[88] A second significant drop in CIF Douala cost, estimated at 8 percent, occurred in 1992-93, when approximately 12,000 tons of fertilizer (over half of the campaign's imports) were imported in bulk and bagged at quayside. In conclusion, compared to the last year of operation of the MINAGRI/FONADER monopoly, the first five campaigns of FSSRP have yielded an estimated 48.7 percent gain in efficiency at the importation level (See Table VII).

There are several reasons for the gain in efficiency at the importation level. First, compared to the MINAGRI/FONADER monopolistic procurement system, private importers could, within the policy framework of FSSRP, execute private importation contracts within a much shorter time-frame. FSSRP project data shows that the time between orders and delivery has been reduced from 12-18 months to 4-6 months since private importation contracts have replaced public ones.[89] Second, the shorter time-frame for executing private importation contracts reduced the risk of price fluctuations that private importers needed to protect themselves against when they bid on private tenders. The reduced risk enabled importers to offer better CIF landed Douala prices to wholesale distributors.[90] Third, the simplicity of the financial scheme required for executing a private contract under FSSRP contributed to lowering the unsubsidized CIF import cost of fertilizer.[91] Fourth, the reduction of the number of intermediaries involved in importation contributed to the reduction of the unsubsidized CIF landed Douala import cost.[92] Fifth, the disengagement of government officials from the day-to-day operations, the clarity and transparency of the FSSRP policy regime as well as the rules of access and disbursement of FSSRP subsidy and credit funds have probably contributed to lowering the transaction costs of doing business in the fertilizer market. Importers were, thus, able to offer lower prices to wholesale distributors. And, finally, sixth, the availability and clarity of the FSSRP policy regime and its rules of access and disbursement of FSSRP funds allowed new importers to easily enter the fertilizer market. That easy entry into the market by numerous potential importers showed the high degree of contestability within that market.[93] Thus, the existence of a large number of potential importers, and the related threat of entry into the fertilizer market, have rendered the fertilizer market contestable and efficient at the importation level.[94]

b. Distribution level. Efficiency gains at the distribution level, as measured by average in-country distribution costs, were significant during the entire period of analysis (See Table VII). FSSRP data showed that the total gain in efficiency at the distribution level was estimated at approximately 26.4 percent. The estimated average distribution cost declined from FCFA 36,000 per ton during the last year of the MINAGRI/FONADER operation in 1987-88 to FCFA 23,648 per ton in 1991-92 and FCFA 26,506 per ton in 1992-93. However, the more significant gains in efficiency had occurred during the first two FSSRP campaigns. The estimated efficiency gain during the first year of FSSRP operation was approximately 17 percent. Based on FSSRP data, the second year of FSSRP's operations also brought a significant additional efficiency gain. Compared to the 1988-89 FSSRP campaign, the efficiency gain was estimated at approximately 16 percent for the 1989-90 campaign.[95]

By passing the **distribution-to-end-user** responsibility from the MINAGRI/FONADER monopoly to the private sector under the FSSRP policy reform program, gains in efficiency at the distribution level were generated in the fertilizer market in Cameroon. Those gains in efficiency were traceable to numerous factors. First, FSSRP data show that the private sector was able to significantly lower the physical losses associated with the handling of fertilizer at the port of entry Douala. Physical losses of fertilizer were likely reduced due to reductions in the number of transfer and handling operations in the post-MINAGRI/FONADER system. Second, FSSRP data also show that the private sector reduced the storage and distribution times, thus, reducing the financial costs associated with these two activities. The storage time at the port of entry Douala was reduced from an average of 9 to 12 months under the MINAGRI/FONADER monopoly[96] to zero to 6 months under FSSRP.[97] In addition, the storage costs were estimated at FCFA 19,866 per ton under the MINAGRI/FONADER monopoly[98] while they were at approximately FCFA 5,000 per ton under FSSRP.[99] Third, cooperatives and private wholesalers appeared to negotiate lower cost transport contracts than officials of the MINAGRI/FONADER monopoly. The MINAGRI/FONADER monopoly paid transporters FCFA 8,250 per ton and FCFA 10,743 per ton from Douala to Bafoussam and Bamenda respectively.[100] The distributors only paid transporters FCFA 7,000 per ton[101] and FCFA 7,500 per ton[102] to transport fertilizers from Douala to Bafoussam and Bamenda respectively in the face of increased gasoline costs during the 1988-93 period.[103]

c. Farm level. The analysis of gains in efficiency at the farm level should be carried out in quantitative and qualitative terms. In quantitative terms, the gain in efficiency as measured by average retail prices should take into consideration the significant reduction in subsidy. The fertilizer subsidy was reduced from FCFA 88,600 per ton in 1987-88 to FCFA 12,669 per ton in 1992-93 (i.e., an 85.7 percent reduction). Average retail prices at the farm level, however, have only increased from FCFA 45,000 per ton in 1987-88 to FCFA 63,901 per ton in 1992-93 (i.e., a 42.0 percent increase). The relatively low increase in average retail prices in the face of a much higher reduction in subsidy, indicated that cost reductions resulting from efficiency gains at the importation and wholesale distribution levels were passed down through the marketing system to the farmers.

In qualitative terms, surveys conducted by MINAGRI's Department of Agro-Economic Surveys and Agricultural Planning (DEAPA) as part of the FSSRP's monitoring system provided data on farmers' impressions of the new marketing system. The surveys, conducted by DEAPA in the seven provinces in 1990 and again in 1992, suggest gains in efficiency in qualitative terms.[104]

The 1990 survey questionnaire asked farmers to compare the current fertilizer marketing system with that of the former MINAGRI/FONADER monopoly in terms of: (1) timeliness of fertilizer supply, (2) adequacy of fertilizer supply (i.e., supply equal to or greater than demand), (3) quality of fertilizer purchased, (4) variety of types of fertilizer available, and (5) reasonableness of cost. Survey results showed that a large majority of farmers saw improvement in each category. The 1992 survey asked the same questions of farmers as were asked during the 1990 survey, which provided further data on farmers' qualitative perceptions of the market as it evolved. The 1992 results show little improvement in categories (1) and (2), but even higher improvement in categories (3) and (5) (see endnote for details of the 1990 and 1992 survey results).[105]

Compared to before the FSSRP, trends noted in the evolution of the quantity and composition of fertilizer marketed suggest that farmers were using fertilizer more efficiently as a production input.[106] Increasing fertilizer prices and price differences between types of fertilizer, combined with falling prices for coffee and, more recently, the devaluation of the FCFA, forced farmers to more carefully evaluate their use and allocation of resources.

Several factors have been noted that support this hypothesis. First, the changing composition of the distribution network - a shift from exclusively coffee cooperatives to independent, private distributors - suggests increased use of fertilizer outside of the coffee sub-sectors, particularly on food crops.[107] Second, this trend is further evident from a change in the mix of fertilizers consumed, which has shifted away from mono-nutrient fertilizers (i.e., nitrogen carriers such as urea and ammonium sulfate) to compound fertilizers (i.e., NPK 20-10-10 and NPK 12-6-20). These types are more appropriate for use on food crops. Third, the compound NPK 10-30-10 has completely disappeared from the market, presumably due to an absence of real demand. Fourth, in the use of mono-nutrient fertilizers, the market share of urea (containing 46 percent nitrogen) has increased relative to the market share of ammonium sulfate (containing 21 percent nitrogen), a less cost-effective fertilizer (see Table VI).

VII. MANAGEMENT OF FSSRP.

It should be apparent from the previous sections that managing the FSSRP market privatization program required much more than just removing the economic policy constraints to private activities and investments within the fertilizer market. Within the conceptual framework of the FSSRP described in the preceding Program Design section, the management of the FSSRP consisted in managing simultaneously the three conceptual elements of the program, i.e., the economic liberalization element, the privatization element and the subsidy elimination element. Once the principal economic policy constraints to private procurement of fertilizer were removed through the implementation of the economic liberalization element, the process of privatization was induced by introduction of "new rules of the game."
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The "new rules of the game" indicated that all contracting activities for fertilizer at all levels of the marketing channel have to be carried out by private economic agents (i.e., importers, bankers, transporters, wholesale distributors and retailers) based on their own initiatives and decisions. Those "new rules of the game" were recorded in the Management Contract between the Technical Supervisory Committee and the Fiduciary Bank, the Memorandum of Understanding between the Fiduciary Bank and Commercial Bank and the General Information Pamphlet. The enforcement of those "new rules of the game" was accomplished through the operation of the FSSRP financial incentives (i.e., the FSSRP subsidy and preferential credit as well as market determined prices).

In addition, USAID/Cameroon took into consideration the following working assumptions while implementing the FSSRP: (1) the existence of high transaction costs; (2) the existence of different types of transaction costs that existed both within and outside the fertilizer sub-sector; (3) the existence of policies in other sectors and market which impinged upon the operation of the fertilizer market; and (4) the limited capacity of the public and private sectors in coping with new competitive business practices.

A. Transaction Costs

The transaction costs of marketing fertilizer in Cameroon included the obvious costs of finding information about the relevant policy regime, which regulated the procurement of fertilizer. These costs also included the time consuming processes of establishing a company, of obtaining import licenses, of having to use Cameroon's national shipping line,[108] of clearing fertilizer shipments out of the port of entry through the customs service, and of internally transporting fertilizer in-land across a myriad of check-points.[109] There were also more insidious hidden costs related to the risk and uncertainty caused by ill-designed practices, procedures and policies which impinged upon the activities of markets other than the fertilizer market. Additional risk was caused by the general absence of guarantees of the individuals' right to expeditious impartial enforcement of property rights and contracts.[110]

The existence of different types of transaction costs was related to the existence of more than one "rent-seeking coalition" (a terminology akin to Mancur Olson's "distributional coalitions")[111] within a country as large and diverse as Cameroon. With respect to the privatization of the fertilizer market in Cameroon, a differentiation between "the fertilizer rent-seeking coalition" and "the general rent-seeking coalition" should be made. The ultimate goal of the "fertilizer rent-seeking coalition" was to protect its limited interests within the fertilizer market, and included control of the 25 million US$ per year fertilizer subsidy fund provided by the government until 1986 and the myriad of other rent-seeking practices.[112] The ultimate goal of the "general rent-seeking coalition" was to protect its broader interests in areas that went beyond the fertilizer market to cover all markets and sectors of the Cameroon economy.[113] It can be argued that the "general rent-seeking coalition" was, in the late 1980s, willing to give way on the issue of fertilizer market privatization but not on the whole mass of similar issues in other sectors.

A comprehensive sectoral policy reform program such as the FSSRP could be successful in dealing with the "fertilizer rent-seeking coalition" but could, if not properly managed, fail to properly deal with the "general rent-seeking coalition." In such an instance, the start-up and sustainability of the privatization of the fertilizer market could be threatened.

The existence of high transaction costs and “rent-seeking coalitions” coupled with an extremely adverse macroeconomic environment demonstrates that the privatization of the fertilizer market in Cameroon was inherently a confrontational and time-consuming process which required continued monitoring and intervention if the reform was to take hold and become sustainable. In the case of the FSSRP, the preliminary phases of policy reform took over two years (from 1985 to 1987). More importantly, policy reform did not stop with the signing of the bilateral Cameroon government-USAID agreements to liberalize the Cameroon fertilizer market or the promulgation of the new policies contained in those bilateral agreements. It went on into a phase of labor-intensive implementation as continued monitoring and intervention were required to ensure that the reforms took hold and that prospects for sustainability were maximized.

The next section will discuss ways by which the FSSRP dealt with problems associated with high transaction costs.

B. Hard Constraints

Though ambitious in its objectives, the FSSRP represented only a policy action program limited to the fertilizer sub-sector or market. That market operated within a larger environment which was not changing. The constraints of the larger environment impinged upon the operation of the fertilizer market.

In managing the FSSRP program, USAID/Cameroon considered the privatization of the fertilizer market within the broader environment where: (1) technical knowledge in both the public and private sectors was limited; (2) the single party authoritarian governance structure was in transition; (3) the bureaucracy was oversized, poorly motivated and rent-seeking; (4) the legal/regulatory system was inappropriate; and (5) the financial and economic crisis was acute.

Having acknowledged the limited technical knowledge of the public sector, USAID/Cameroon worked very closely with the TSC to ensure that appropriate policy actions were taken on time and the overall policy thrust of liberalization and privatization was maintained. To remedy the lack of technical knowledge of the private sector, USAID/Cameroon and the TSC performed well-targeted information dissemination and training sessions to importers, bankers and distributors.

The most challenging management task for USAID/Cameroon was to work with the government's governance structure and bureaucracy. Related to the style of management called "*Capitalisme d'Etat*" of direct and intrusive government involvement in the economy, the government had approximately 140,000 civil servants on its payroll. For a country of about eleven million inhabitants, the size of the civil service was very large by most standards. Senegal, for example, had approximately 50,000 civil servants to manage the economic life of its seven million inhabitants. Several scholars have argued that the large Cameroonian civil service work-force was created by the government to provide support and stability to the Government in power.[114] It has also been argued that that civil service work-force included special interest groups which could be called "rent-seeking coalitions" whose goals were to make their members better off through the control of major commodity and financial flows and "the organized leakage" of those flows.[115] In addition, they also distort the economy and reduce its efficiency, creating a sub-optimal status quo that they seek to preserve. The resilience of such groups is great and their existence normally can be jeopardized only if "there is a social upheaval or other form of violence or instability."[116]

The financial and economic instability that plagued Cameroon starting in late 1986 was the single most important element that forced the government and the "rent-seeking coalitions" to accept changes such as the FSSRP program. In the early 1980s, the World Bank hired Professor Elliot Berg to study the fertilizer market and propose changes to improve its efficiency. Professor Berg had made proposals for changes in the mid-1980s but they either fell on deaf ears or were outright rejected by the government. [117] Presumably, the government was able to afford to subsidize the public monopolistic fertilizer procurement system at the tune of approximately US$ 25 millions per year in the mid-1980s.[118]

In late 1986, the government could not, because of the acute economic crisis, provide US dollar 25 million per year of subsidy to enable the inefficient public fertilizer procurement system to operate. The FSSRP program provided a timely alternative, which could save the government money and resolve the fertilizer procurement problem.

Even though the FSSRP was generating within a short period of time financial and other qualitative benefits to the government and private sector participants (including farmers), the overt and covert opposition to the FSSRP was strong. That opposition manifested itself in, for example, delaying the public announcement of the liberalization and privatization of the fertilizer market in the written and oral press in 1987 for the official launching of FSSRP.[119]

USAID/Cameroon dealt with the opposition from civil servants and their discretionary power of through the dissemination of information on the FSSRP and promotion of transparency and accountability in the management of FSSRP funds during the FSSRP Annual Reviews/Workshops. Those Annual Reviews/Workshops were also opportunities to build support for fuller liberalization and better define the rules of the game, especially those pertaining to the access and disbursement of the FSSRP subsidy and credit funds. While USAID/Cameroon could not do much to lower transaction costs outside the fertilizer sub-sector, it monitored the fertilizer market very closely to ensure that excessive transaction costs could not force fertilizer operators into bankruptcy and/or out of the market.[120, 121]

In operationalizing the rules of the game each year, USAID/Cameroon worked with the Technical Supervisory Committee to identify and introduce them in the private sector and market place. There has been no attempt to perform the usual institution building and strengthening activities that are so common in USAID activities. A successful FSSRP would mean that the fertilizer market would be operating without needing the intervention of the government. In addition, given the lack of coordination within the government, the transfer of know-how to the TSC, an inter-ministerial committee, would be of little future utility.[122]

In managing the FSSRP, USAID/Cameroon and the Technical Supervisory Committee also took into account the inappropriateness of the legal/regulatory framework and the severity of the financial/economic crisis. In an attempt to offset those constraints which impinged upon fertilizer procurement activities, the Committee and USAID/Cameroon paid special care to ensure that the access and disbursement of FSSRP subsidy and credit funds were as transparent, efficient and accountable as possible. In this respect, the FSSRP subsidy fund could be cited as the single most significant policy instrument, which has rendered the fertilizer market highly "contestable". Thus, it made the market much more efficient by reducing - even though only temporarily - the amount of funds required for entry into the fertilizer market and, therefore, the risk borne by bankers and importers. In other words, the FSSRP transformed the fertilizer subsidy fund from a source of corruption and cause of inefficiency that it was under the public monopolistic procurement system to a source of contestability and competition under the privatized procurement system.

C. Iterative Process

The FSSRP market privatization program was managed as an iterative process punctuated by annual reviews/workshops where all public and private economic agents participated. From the outset, it was considered that while the liberalization of the fertilizer market could be immediate,[123] its privatization required time even within a fully liberal policy environment. The privatization of the fertilizer market was viewed as "process of tatônnement à la Walras".[124] Within this process, importers and bankers sought out the "new rules of the game," estimating the size and nature of the market and identifying the viable buyers/distributors in an environment of high transaction costs and uncertainty even with the removal of economic policy constraints in the fertilizer market. The thrust of the management of the FSSRP program was to induce and accelerate the "tatônnement process" to enable a prompt transition in fertilizer procurement from a system of total control by the public sector to a system where all activities are exclusively executed by the private sector. A prompt transition would minimize disruption in procurement. Any disruption in fertilizer procurement would lead to scarcity and high prices, i.e., high social costs. The existence of high social costs could cast discredit to the reform program and could have forced the government to reverse its decision to liberalize the fertilizer market.

Explicit in the management of FSSRP was the hypothesis that the existence of high transaction costs and hard constraints outside the fertilizer sub-sector would interfere with, slow down and delay the occurrence of the "tatônnement process." It is through a "tatonnement process" - literally, a process of groping by official bodies and private sector operators - that a totally privatized market is created. Delay in, or postponement of the tatonnement process" would lead to scarcity of and high prices for fertilizer. The key to a rapid transition from a public monopolistic fertilizer procurement system to a completely privatized procurement system was, in implementing simultaneously the three policy elements of the FSSRP, to focus on facilitating and accelerating the "tatônnement process" through an iterative process punctuated by annual reviews/workshops.

The iterative process used in managing FSSRP followed essentially a twelve-month cycle (with two principal fertilizer applications in March-April and September-October). Each iteration began with a specific set of "rules" which were listed in the TSC-Fiduciary Bank management contract, the Memorandum of Understanding between the Fiduciary Bank and Commercial Bank and the General Information Pamphlet. As described in the preceding section, "Introduction of the New Institutional Arrangements, which contains a detailed presentation of the "rules, they pertained to specificities of the economic liberalization element (i.e., changes in the import and fertilizer pricing regimes and in the relationship between the government and private operators, on the one hand. On the other, they pertained to specificities of the privatization element (e.g. roles of the government, commercial banks, importers and distributors in the access to and delivery of the FSSRP's subsidy payments and preferential credit. The "rules" were intended to instill greater transparency in the fertilizer sub-sector and, thus, lower the discretionary power of members of "rent-seeking coalitions." Each iteration ended with an annual review/workshop.

Each iteration did not begin and end with the governance level and the government bureaucracy. Rather, each iteration began with the governance level for the determination of a specific set of rules within the confines of the FSSRP policy framework. The specific set of rules was then introduced in the relevant government ministries. USAID/Cameroon worked with the TSC to render the rules effectively operational among bankers, importers, wholesale distributors and retailers. Finally, the TSC and USAID/Cameroon monitored the operation of the specific set of rules in the market place.[125]

The FSSRP annual reviews/workshops constituted an essential management tool of the FSSRP reform program. In preparation for each annual review, the TSC and USAID/Cameroon called on outside consultants to determine the welfare outcome of a particular set of "rules of the game" at each level of the marketing system as the fertilizer market moved toward complete privatization. Each Annual Review/Workshop began with an independent review of the fertilizer campaign by a third party not involved in any capacity in FSSRP activities.[126] The independent review determined the operational efficiency of the specific set of rules and the welfare outcome of each group of operators in the fertilizer market. The independent review was then openly presented and discussed during the Annual Review/Workshop in front of all active and potential participants.

Annual reviews/workshops were gatherings sponsored by the TSC where representatives of the government, USAID/Cameroon, the Fiduciary Bank, commercial banks, importers, distributors, cooperative managers and, sometimes, farmers could learn, criticize and propose changes to the "rules of the game." It was the forum used to disseminate information, build support for the reform program, determine future course of actions and promote contacts between the different players. The Annual Reviews/ Workshops were instrumental in facilitating the "tatônnement process" whereby each campaign took the fertilizer sub-sector closer to full liberalization and privatization in spite of the acute economic crisis and huge arrears in the coffee/cocoa sub-sectors.

VIII. CONCLUSION AND LESSONS LEARNED.

The characterization of the policy reform process as lengthy, confrontational and managerially-intensive is a far cry from the idealized *"laissez faire"* notion of policy reform. In the "*laissez faire*" form, policy reform is rapid to design, perhaps difficult to negotiate, but once agreed to, becomes essentially self-implementing. The "*laissez faire*" view holds that implementation problems arise from technical shortcomings of those charged with implementation and not from some fundamental attribute of the reform process (such as the existence of high transaction costs, stakeholders and an institutional environment within which property rights and contracts are not enforceable).

The basis for those divergent perspectives on the nature and difficulty of policy reform is an equally divergent conception of the underlying process. The idealized "*laissez faire*" view is grounded in a framework of the policy process derived from mainstream economics. The model for the policy reform process is a set of markets, operating without transaction costs and within which adjustments occur instantaneously.[127] Under that model, to remedy an inefficiency, a factor or policy is changed, the market responds instantaneously, and eventually a new, presumably more efficient, equilibrium is achieved. The same process is attributed to policy reform. Thus to redress an inefficiency found in the prevailing policies, a reform is introduced, and the economy responds instantaneously until it has achieved a new, presumably more efficient, equilibrium.

Proponents of this idealized "*laissez faire*" view would argue for the implementation only of the economic liberalization and subsidy elimination elements of the reform program, and let the fertilizer market adjust itself toward a privatized procurement system. However, the idealized "*laissez faire*" view has little or no relevance to countries in which the economy is organized as a "*Capitalisme d'Etat*". In Cameroon, the privatization of the fertilizer market constituted the very first attempt to liberalize the economy and to reduce the role of the central government in productive activities. Under the FSSRP program it was not possible to fully liberalize the fertilizer market all at once because there were still too many "rent-seeking coalitions" which opposed changes in the late 1980s.[128]

In addition, a complete all-at-one-time elimination of the fertilizer subsidy would have been counter-productive in Cameroon, where transaction costs and commercial risks are extremely high as evidenced by extremely high guarantee requirements by commercial banks. An all-at-one-time elimination of the fertilizer subsidy not only would have raised fertilizer prices and reduced the use of fertilizer. It would also have limited the entry of new importers into the fertilizer market. By completely eliminating the fertilizer subsidy all at once, policy makers would be foregoing a valuable policy instrument to induce "contestability" in the liberalized fertilizer market. On the contrary, by phasing out the fertilizer subsidy gradually, the TSC and USAID/Cameroon lowered the level of commercial risk and lowered guarantee requirements by commercial banks. They, therefore, facilitated the entry into the fertilizer market by new importers, enhanced the "contestability" of the fertilizer market and induced great gains in efficiency at the importation level.

Furthermore, based on the preceding analysis, the "*laissez faire*" approach fails to deal with the critical issue of social costs. As indicated in the preceding analysis, the abolition of the MINAGRI/FONADER monopoly through the implementation of the FSSRP's economic liberalization element in 1987-88 eliminated all the business relationships that existed among the various operators of the public and private sectors. If, as pointed out in this paper, the removal of policy constraints to the importation of fertilizer obliterated the existing business relationships and nothing was being done to replace those relationships then the fertilizer procurement would have broken down completely.[129] In this case, the benefit of liberalizing and privatizing the procurement of fertilizer would have been negated.

It is true that there are some policy reforms, such as the removal of price controls or devaluation of the currency, that may be conceived of in the "*laissez faire*" fashion. However, there are many, such as the privatization of the fertilizer market in Cameroon, that cannot be so conceived. In Cameroon, the transformation from a heavily subsidized public monopoly to a subsidy-free, private and competitive market within an adverse economic and institutional environment was an incremental, iterative process of "*tatônnements*" which took time (from 1987 to 1994 and beyond). To fully comprehend the privatization of the fertilizer market in Cameroon under the FSSRP, a more encompassing framework than the one used in traditional economics is needed. Such a framework can be derived from the institutional perspective. Within this framework, market privatization is the process of substituting one set of institutional arrangements for another set of arrangements.[130]

From the institutional perspective, the prevailing policy regime is composed of a set of both formal and informal rules, regulations, procedures and incentives that guide human behavior to a particular outcome. In any prevailing regime in need of reform there are advocates or stakeholders who benefit from the way the policy regime operates and will resist alterations to the regime for fear of losing some or all of those benefits. Reform, in this view, is a complex undertaking. The desired end of the reform is a change in human behavior. To effect that change, a new set of institutional arrangements must be designed and put into practice that will yield the desired outcomes. Design of these arrangements is not a straightforward task. The usual policy handles available to reformers are formal rules and regulations. It is not always at all clear, in advance, how informal practices will interact with the new formal rules and procedures introduced in policy reform. The complexity and uncertainty means that reform must be seen as an iterative, incremental process with various rules and incentives modified over time to elicit the desired social outcomes.[131]

In the context of the FSSRP, such elements as the contract between the government and the Fiduciary Bank, the Memorandum of Understanding between the Fiduciary Bank and the participating commercial banks, and the General Information Pamphlet (with its rules and procedures for access to the FSSRP funds) constituted concrete attempts to replace the formal policies, business relationships and informal arrangements of the public monopoly which were obliterated with the liberalization and privatization of the fertilizer sub-sector.

Further complicating matters is the issue of stakeholders, members of both the "fertilizer and general rent-seeking coalitions" and businessmen who benefit from the monopolistic policy regime. Reform will have both its losers and winners. The two groups can be expected to confront each other throughout the reform process. The speed and scope of the reform will be determined by the relative power of the two groups. This means that the reform process is inherently political and confrontational. It also means that the sustainability of reform is always precarious. The reformed policy regime must be generating enough benefits to its stakeholders and beneficiaries to withstand the pressures of those who would like to derail the reform. This means that designers and supporters of reform must not only be concerned about implementation in the short-run, but must consider how reform persists over time.

In the short-run, implementers should be concerned with generating benefits from the privatization program as soon as possible. Delay in generating benefits from the reform will raise social costs and the political pressure to reverse decisions to liberalize the marketing of fertilizer. Thus, the process of market privatization needs to be comprehensive, decisive and self-correcting. To be comprehensive, the policy content of the FSSRP needed to identify policy and institutional constraints at all levels of the marketing chain and propose clear actions to be taken by the government according to an agreed upon time-table. To be decisive, the time-table for implementing policy and institutional changes under the FSSRP needed to be compressed into as short a period of time as possible while at the same time attempting to avoid disruptions in the newly created market. To be self-correcting, the implementation of the FSSRP needed to be constantly monitored and assessed. Adjustments of policies, institutional arrangements and operational procedures were introduced at the beginning of each new campaign, or iteration, until the new fully liberal policy regime was effectively established and fully operational.

While the macroeconomic and institutional environments in Cameroon during the 1987-94 period imposed high transaction costs and were a deterrent to private investments, they did not, given the right design and implementation of the policy reform program, prevent the privatization of the fertilizer market under the FSSRP. In this respect the authors disagree with numerous authors and development specialists who claim that market privatization cannot be carried out in Sub-Saharan Africa until all macroeconomic and institutional constraints are removed. The case of the FSSRP during the 1987-94 period demonstrates that the privatization of all the activities to procure fertilizer in Cameroon occurred very promptly with greatly enhanced efficiency in spite of the prevailing constraining macroeconomic and institutional environments. However, there was still ample room to improve on efficiency if the macroeconomic framework and, even more importantly, the institutional environment could have been altered to make them more stimulating to private investments.

TABLES SECTION

Table I. Fertilizer Consumption in Cameroon, 1980-1985
(Note: this should be read in conjunction with Table VI on page 56)

Year	Total Fertilizer Consumed (tons per year)	Total Subsidized Fertilizer Consumed (tons per year)	Subsidized Consumption As % of Total Consumption
1980/81	**85,692**	**44,000**	**51.3%**
1981/82	**90,576**	**42,000**	**46.4%**
1982/83	**116,423**	**78,000**	**67.0%**
1983/84	**124,066**	**82,826**	**66.8%**
1984/85	**105,056**	**65,313**	**62.2%**
Five Year Avg.	**104,363**	**62,428**	**59.8%**

Source: International Fertilizer Development Center, *Cameroon Fertilizer Sector Study*

Table II: Cost Data for the MINAGRI/FONADER Procurement System's Final Year of Operation

Cost Component	Amount
1. Subsidy Disbursed (FCFA billion)	6.0
2. Average Unit Subsidy (FCFA/ton)	88,600
3. Subsidy Rate (row 2/row 4)	66.3%
4. Delivered Cost (FCFA/ton)	133,600
of which	
4a. CIF Cost* (FCFA/ton)	97,600
4b. Distribution Cost (FCFA/ton)	36,000
5. Retail Price (FCFA/ton)	45,000

* Includes importer's margins
Source: International Fertilizer Development Center, Cameroon Fertilizer Sector Study

Table III: Private Sector Participation in the FSSRP, 1988-94
Banks, Importers and Distributors

Economic Operator	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
Fiduciary Bank	1	1	1	1	1	1
Accredited commercial banks	4	4	4	5	3	3
of which actually participated	2	4	1	4	3	2
Suppliers of fertilizers	3	3	3	4	3	4
Active Importers of fertilizers	14	10	10	13	12	12
of which wholesaled stocks	3	3	3	3	6	6
of which actually imported	3	2	1	3	3	3
Active Distributors	6	16	18	22	many	many
of which actually distributed	4	10	17	20	"	"
of which were cooperatives	4	6	6	9	"	"
of which were "for profits"	0	4	11	11	"	"
Provinces covered (out of 7)	3	5	5	6	7	7

Sources: Richard Abbott et al's Annual Assessment Reports and Fiduciary Bank Records

Table IV. Potential Importers Under FSSRP

Company	Registered Capital (US$)	Registered Capital (FCFA)	Date of Incorpora-Tion	Statute	Main Activity
ADER	836 364	230 000 000	06-Mar-80	SA	Pesticide, fertilizer
AMINOU	363 636	100 000 000	15-Apr-80	SA	General commerce import/export
ATCIA	18 182	5 000 000	1982	SA	Import/export
CAMATREX	72 727	20 000 000	17-Mar-88	SARL	General commerce, transport
ADIR	3 636	1 000 000	05-Mar-87	SARL	General commerce-fertilizer
IBEX	18 182	5 000 000	20-May-89	SARL	General commerce-fertilizer
FERIDA	3 636	1 000 000	1989	SA	Bulk blending-fertilizer
GROUPE-ONE	18 182	5 000 000	Jan-1987	SARL	General commerce-fertilizer
PELENGET	218 182	60 000 000	08-Feb-77	SARL	Chemical products
PLANTERRA	3 636	1 000 000	N/A	SARL	Pharmacy-chemical products
RETCAMCHEM	18 182	5 000 000	21-Jun-89	SARL	N/A
RHONE-POULENC	29 091	8 000 000	1982	SA	Chemical products
AGRICHIM	763 636	210 000 000	N/A	SA	Chemical products
HEMASON	N/A	N/A	N/A	N/A	N/A
COMPLEXE JBN	18 182	5 000 000	1987	SA	N/A
BELA NKE		N/A	N/A	N/A	General commerce,import/export

SA: Société Anonyme, Corporation
SARL: Société Anonyme a Responsabilité Limitée, Limited Responsibility Corporation.
Sources: Fiduciary Bank's files and interviews

Table V: Subsidy as a Percentage of Bank Guarantee

Year	Subsidy Rate (subsidy as % of CIF value of fertilizer	Percentage of Value Of letter of credit Represented by Subsidy Payment	Remaining Percentage of letter of credit to be financed by Importer
1988/89	37.0%	56.5%	43.5%
1989/90	30.2%	43.1%	56.9%
1990/91	26.3%	38.2%	61.8%
1991/92	20.3%	29.2%	70.8%
1992/93	16.5%	25.3%	74.7%
1993/94	4.6%	5.8%	94.2%

Actual Subsidy Rate (actual subsidy disbursed as a percentage of actual CIF values, calculated as a weighted average across all types at end of FSSRP Campaign).
Sources: Richard Abbott et al.'s Annual Assessment Reports and Fiduciary Bank Records.

Table VI: Comparison of Fertilizer Imports, 1987-94

	Public Monopoly	Fertilizer Sub-Sector Reform Program					
	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
Total Imports (tons), of which	64,983	63,000	64,172	22,003	31,800	22,670	18,157
NPK 20-10-10	29,550	26,300	23,230	12,051	21,050	4,000	10,200
NPK 12-06-20	0	12,000	2,000	1,492	4,200	2,200	0
NPK 10-30-10	3,210	0	0	0	0	0	0
Urea	12,295	15,200	24,942	6,885	5,250	10,605	7,457
Ammonium Sulfate	19,929	9,500	14,000	1,575	1,300	5,565	500

Note: Of the 1987/88 total, approximately 55,077 tons were delivered to the seven southern provinces ultimately covered by the FSSRP, with an approximate [based strictly ratios of the overall type-composition of the total imported tonnage] type composition as follows: NPK 20-10-10, 25,220 T; NPK 12-06-20, 0 T; NPK 10-30-10, 2,722 T; Urea, 10,426 T; Ammonium Sulfate, 16,900 T.

Sources: 1987/88 data: SPDA/FONADER files; 1988/89 through 1993/94 data: Richard Abbott et al.'s Annual Assessment Reports.

Table VII: Comparison of Marketing Costs and Average Retail Price, 1987-93

	Public Monopoly	Fertilizer Sub-Secctor Reform Program					Total Change (%)
	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	
1. Subsidy Disbursed (FCFA billion)	6.0	2.0	1.5	0.5	0.6	0.4	
2. Average Unit Subsidy (FCFA/ton)	88,600	31,932	25,030	21,034	15,884	12,669	-85.7%
3. Subsidy Rate (row 2/row 4)	66.3%	37.0%	30.2%	26.3%	20.3%	16.5%	-75.1%
4. Delivered Cost (FCFA/ton)	133,600	86,235	82,858	79,960	78,111	76,570	-42.7%
of which							
4a. CIF Cost	97,600	56,512	58,031	55,133	54,463	50,064	-48.7%
4b. Distribution Cost*	36,000	29,723	24,827	24,827	23,648	26,506	-26.4%
5. Retail Price (FCFA/ton)	45,000	54,597	57,828	58,926	62,227	63,901	+42.0%

**Distribution costs include importers' margins.*

Note: 1993/94 data not presented due to effects of devaluation

Sources: 1987/88 data: Based on the International Fertilizer Development Center study; 1988/89 through 1992/93 data: Richard Abbott et al.'s Annual Assessment Reports. able VIII: FSSRP Subsidy Elimination Data (Original and Revised Elimination Plans and Actual Rates), plus Target and Importation Tonnage by Campaign and Year.

TABLE VIII: FSSRP Subsidy Elimination Data (Original and Revised Elimination Plans and Actual Rates), plus Target and Importation Tonnage by Campaign and Year

Campaign Year		Subsidy Elimination Data			Fertilizer Imports	
		Original Plan	Revised Plan	Actual Rate	Target Tonnage	Tonnage Imported
1	**1988-89**	45%	33%	37%	60,000	63,000
2	**1989-90**	30%	24%	30%	75,000	64,171
3	**1990-91**	10%	20%	26%	50,000	22,003
4	**1991-92**	0%	17%	20%	34,000	31,600
5	**1992-93**	0%	15%	16%	50,000	22,600
6	**1993-94**	0%	8%	6%	40,000	18,200

Source: Project Implementation Letter No. 15 and update to include 6th campaign).

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ENDNOTES

1. Henny Gerner, "Alleviating Constraints to the Privatization of Fertilizer Importation and Domestic Marketing in Sub-Saharan Africa: Resume of Salient Points of AFTMIN 5," African Fertilizer Market, vol. 5, no. 11/12 (November/December 1992): 6-9; International Fertilizer Development Center-Africa and Agricultural Economics Research Institute, "Privatization of the Fertilizer Sector in Sub-Saharan Africa," Miscellaneous Fertilizer Studies No. 2: First Annual Meeting of the African Fertilizer Trade and Marketing Information Network (Lome, Togo: IFDC, November 22-24, 1988); Uma Lele, Robert

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2. Ravi Ramamurti, "Testing the Limits of Privatization: Argentine Railroads," _World Development_, vol. 25, no.12 (1997): 1973-1993; World Bank, _Bureaucrats in Business - The Economics and Politics of Government Ownership_ (New York: Oxford University Press, 1995); Christopher Clague and Gordon C. Rausser, eds., _The Emergence of Market Economies in Eastern Europe_ (Cambridge, Mass.: Basil Blackwell, 1992); and, Steve H. Hanke, ed., _Privatization and Development_ (San Francisco, CA.: International Center for Economic Growth, 1988).

3. Louis De Alessi, "How Markets Alleviate Scarcity," _Rethinking Institutional Analysis and Development_, ed. Vincent Ostrom, David Feeny and Harmut Picht (San Francisco, CA.: International Center for Economic Growth, 1988): 339-376; and, Andrew Shepherd.

4. R.H. Coase, _The Firm, the Market and the Law_ (Chicago and London: The University of Chicago Press, 1988): 19.

5. Business relationships are defined here to include relationships between public and private, public and public and private and private entities.

6. These institutional arrangements include the full range of formal and informal rules, regulations, procedures and incentive sets in the economic, political and social spheres that guide human interaction.

7. The institutional arrangements affected include existing working relationships between civil servants, manufacturers, importers, bankers, wholesale distributors, retailers and buyers as well as the basic market rules of "WHO IS DOING WHAT TO WHOM? HOW? and, WHEN?" and the incentive system which kept those relationships and rules operational.

8. H.R. Coase, 114.

9. S. Tjip Walker, _Pitfalls of Privatization: A Case Study of the European Community's Programme Spécial d'Importation d'Engrais_ (Burlington, Vermont: Associates in Rural Development, March 1994): and, U.S. Agency for International

Development, A.I.D. Economic Policy Reform in Six African Countries, A.I.D. Evaluation Highlights No. 7 (May 1992); and, The A.I.D. Economic Policy Reform Program in Cameroon, A.I.D. Impact Evaluation Report No. 78 (June 1991): 8-11.

10. For the US Agency for International Development see references in note 7 and United States General Accounting Office, Foreign Assistance - AID's Private-Sector Assistance Program at a Crossroads, Report to the Chairman, Committee on Foreign Affairs, House of Representatives, GAO/NSIAD-93-55 (December 1992). For the World Bank, see Effective Implementation: Key to Development Impact (Washington, DC: World Bank, September 1992).

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14. World Bank, Adjustment in Africa: Reform, Results, and the Road Ahead, especially 234-239.

15. Roger Gabriel Nlep, Le Cadre Institutionel Nécessaire Pour La Gestion Macroéconomique En Période D'Ajustement Structurel (The Necessary Institutional Framework for Managing Macroeconomic Policy in Period of Structural Adjustment), Government of the Republic of Cameroon/MINPAT (1992); Nkwain Sama Joseph, "Cameroon's Bureaucracy and Its Effects on Policy Formulation and Implementation," in Agricultural Policy Analysis In Sub-Saharan Africa, ed. Max R. Langham and Francois Kamajou (Gainesville, Fl.: University of Florida): 239-255; Nicolas van de Walle, "The Politics Of Non Reform in Cameroon," paper prepared for delivery at the 1989 meeting of the African Studies Association, November 2-5, Atlanta, Georgia; and, J.V.C. Ntangsi, "The Political and Economic Dimensions of Agricultural Policy in Cameroon," unpublished paper, 1987.

16. The term "rent-seeking coalitions" refers to groups of individuals whose goals are to make their members better off through the control of major commodity and financial flows and "the organized leakages" of those flows. The terminology and definition used are very much akin to "distributional coalitions" described by Mancur Olson in *The Rise and Decline of Nations* (New haven and London: Yale University Press, 1982).

17. Statement made by ex MINDIC Inspecteur General Patrice Mandeng during the closing ceremony of the World Bank sponsored Donor's Workshop on the Promotion of Private Investment in Yaounde, Cameroon, on 12-14 January 1992. See also, World Bank, *Adjustment in Africa: Reforms, Results, and the Road Ahead*, for an overview of the overall 1987-91 donor-financed reform program in Cameroon.

18. The FSSRP program was originally set for five years, 1987 to 1992, at a funding level of US dollar 20.00 million. See USAID, Program Assistance Approval Document, Africa Economic Policy Reform Program - Cameroon Fertilizer Sub-Sector Reform Program (Washington, DC: September 1987).

19. World Bank, Adjustment in Africa: Reform, Results, and the Road Ahead; and, International Monetary Fund, Staff Report for the 1993 Article IV Consultation, and Staff Report for the 1991 Article IV Consultation and Request for Stand-By Arrangement (Washington, DC: July 1993 and November 1991 respectively).

20. Jean A.P. Clement, "Striving for Stability: CFA Franc Realignment," Finance and Development (June 1994): 10-13.

21. High bank guarantee requirements and their relationship with the non-enforceability of property rights and contracts came up during FSSRP annual meetings. Proponents of existing banking practices explained them in terms of prevailing imperfect macroeconomic and institutional environment. See also Richard D. Abbott et al., Privatization of Fertilizer Marketing in Cameroon: A Second, Third, Fourth and Fifth Year Assessment of the Fertilizer Sub-Sector Reform Program - 1990-93 Technical Reports (Washington, DC: Abt Associates; and, Moscow, Idaho: Postharvest Institute for Perishables; 1990-93); and, World Bank, "Conclusions de la Reunion des Bailleurs de Fonds sur la Promotion du Secteur Privé au Cameroon," Annex 1 of the "Aide Memoire de la Mission de la Banque Mondiale Relative à la Promotion du Secteur Privé" drafted by Mr. Jean-Jacques Deschamps, Charge d'Opérations Principal, Banque Mondiale, on 12-14 January 1992.

22. Tham V. Truong, "PRAMS II's Concept Paper - Reform of the Robusta and Cocoa Sub-sectors," (EAPRI, USAID/Cameroon, unpublished mimeographed, July 1992) and USAID, A Program of Reform in the Agricultural Marketing Sector, Phase I - A Program Assistance Approval Document (Washington, DC: August 1990).

23. World Bank, "Conclusions de la Reunion des Bailleurs de Fonds sur la Promotion du Secteur Privé au Cameroun," Annex 1 of the "Aide Memoire de la Mission de la Banque Mondiale Relative à la Promotion du Secteur Privé" drafted by Mr. Jean-Jacques Deschamps, Charge d'Opérations Principal, Banque Mondiale, on 12-14 January 1992.

24. For a clear discussion of the relationships between the rule of law/property right/contract law, market efficiency and economic growth see Mancur Olson, "The Hidden Path To A Successful Economy," in Christopher Clague and Gordon C. Rausser, eds.; and, Douglass C. North, Transaction Costs, Institutions, and Economic Performance, Occasional Papers Number 30 (San Francisco, CA.: International Center for Economic Growth, May 1992).

25. According to data presented in J.E Austin Associates, Cameroon: MAPS Private Sector Diagnosis (Cambridge, Massachusetts: March 1990), 61 percent of businesses surveyed said that contracts were difficult to enforce and 63 percent said that such problems made it difficult to do business in Cameroon (see especially Appendix A, question 59). The report concluded that government regulations made it difficult to start and operate a business in Cameroon (14).

26. World Bank, Cameroon Agricultural Sector Report, (Washington, D.C.: 1989).

27. As of mid-1994, such a merger had not yet taken place. The EEC and SODECOTON, without officially clearly stating the reasons, both objected to having their program merge with FSSRP. However, SODECOTON could, from 1992, freely and competitively procure fertilizer without having to go through the public tendering process of the Ministry of Public Tenders/Computer Services (see Felix Nkonabang, "SODECOTON-Cameroon Authorized to Procure Fertilizer Directly - A Decision Taking Place," African Fertilizer Market, vol. 6, no. 2 (February 1993), 4). In addition, with the complete elimination of direct subsidies in the Southern Provinces in 1994, distributors that had been operating in those areas were now free to penetrate the Northern Province markets.

28. Ministry of Finance, Rapport Economique et Financier/Loi de Finance de l'Exercise 1992/93 (Yaounde, Cameroon: 1992).

29. The organizations of the cocoa/coffee and fertilizer marketing systems were the epitomes of rent-seeking behavior. For cocoa and coffee, the government had the monopoly in marketing, fixed producer prices and managed the stabilization fund that received proceeds from implicitly taxing cocoa/coffee producers (see, Tham V. Truong, "PRAMS II's Concept Paper - Reform of the Robusta Coffee and Cocoa Sub-sectors;" and, USAID, A Program of Reform in the Agricultural Marketing Sector, Phase I - A Program Assistance Approval Document). For fertilizer, the government had the monopoly in procurement, and controlled as well as managed the fertilizer subsidy fund that was provided with resources from the cocoa/coffee stabilization fund and taxes. USAID/Cameroon had proposed during the negotiation on FSSRP simultaneously and totally deregulating cocoa/coffee producer prices and eliminating the fertilizer subsidy - a proposal that ended up going nowhere.

30. International Fertilizer Development Center, Cameroon Fertilizer Sector Study (Muscle Shoals, Alabama: IFDC, May 1986): 156-197.

31. MINAGRI/FONADER, "Rapport d'Analyse des Offres pour la Fourniture des Engrais pour Cultures Industrielles et Vivrières au Ministère de l' Agriculture," (Yaounde, Cameroon: 23 Decembre 1987).

32. Based on authors' Interviews with sales managers of overseas firms.

33. It can be argued that, effectively, foreign importers could participate only via a connection with a local importer, hence, only indirectly and non-transparently. However, paradoxically, on a de facto basis, foreign fertilizer dealers were participating heavily in the system - and doing quite well for themselves - via the use of what may be termed "mail box" local businesses importing fertilizer on behalf of the government. Thus, fertilizer import transactions were not really being done at arms-length by foreign importers but rather had something of a "multinational corporation aspect", and the government (or rather FONADER) was really negotiating - but indirectly, and as if through a veil - with foreign-based concerns rather than with really autonomous private sector Cameroonian businesses acting as principals.

34. International Fertilizer Development Center, Cameroon Fertilizer Sector Study: 165-168; and, MINAGRI/FONADER’s file notes on planned versus actual 1986-87 government fertilizer procurement plan.

35. International Fertilizer Development Center, Cameroon Fertilizer Sector Study: 168-193.

36. International Fertilizer Development Center, Cameroon Fertilizer Sector Study: 74-107.

37. World Bank, Agricultural Input Supply in Cameroon, Volumes I and II (Alexandria, VA: Elliot Berg Associates, June 1983).

38. See arguments presented in the subsequent sub-section "Hard Constraints" of the "Management of FSSRP" section.

39. The 1985 MINAGRI request could either be a more action-oriented follow-up to the World Bank 1983 study or a "second opinion".

40. International Fertilizer Development Center, Cameroon Fertilizer Sector Study: 259-329.

41. The underlying assumption was that after four years of progressive liberalization and gradual subsidy elimination, private fertilizer distribution networks would

be well enough established for sustained private sector participation in the sub-sector to be likely to continue without subsidization. Therefore, the process of liberalization and privatization would be hard to reverse. See U.S. Agency for International Development, Program Assistance Approval Document, Africa Economic Policy Reform Program - Cameroon Fertilizer Sub-Sector Reform Program (Washington, DC: September 17, 1987); and, USAID/Cameroon, "Program Grant Agreement Between the Republic of Cameroon and the United States of America for Fertilizer Sub-Sector Reform - AID Program No. 631-K-601" (Yaounde, Cameroon: September 29, 1987).

42. For example, Total Delivered Cost = CIF Landed Douala Cost plus Handling plus Storage plus Transport plus Interest Costs plus Margins.

43. USAID/Cameroon, "Program Grant Agreement Between the Republic of Cameroon and the United States of America for Fertilizer Sub-Sector Reform - AID program No. 631-K-601," (Yaounde, Cameroon: September 29, 1987), Section 6.4.h and Annex I.

44. Items (1) and (2) were recorded as conditionalities for the disbursement of US dollars in the FSSRP Program Grant Agreement while item (3) was recorded as a covenant. See USAID/Cameroon, "Program Grant Agreement Between the Republic of Cameroon and the United States of America for Fertilizer Sub-Sector Reform - AID program No. 631-K-601;" and, "Agreement Between the Technical Supervisory Committee (TSC) and the Bank of Credit and Commerce Cameroon (BCCC) for the Management of the Fertilizer Sub-Sector Reform Program (FSSRP) Funds in Cameroon" (Yaounde, Cameroon: March 30, 1988).

45. "MINDIC/MINPAT Order of May 3, 1988 Fixing Fertilizer Ceiling Target Subsidized Farmgate Prices and Unit Subsidies."

46. Items (1) and (2) were recorded as conditionalities for the disbursement of US dollars in the FSSRP Grant Agreement signed between the government and the US Government. See USAID/Cameroon, "Program Grant Agreement Between the Republic of Cameroon and the United States of America for Fertilizer Sub-Sector Reform - AID Program No. 631-K-601."

47. These management information centers include the Technical Support Unit associated with the TSC and the Office of Economic Analysis and Policy Reform Implementation (EAPRI) within USAID/Cameroon.

48. USAID/Cameroon, "FSSRP Program Grant Agreement No. 3" signed on August 26, 1993.

49. Ministère du Plan et de l'Aménagement du Territoire (MINPAT), "Plan d'Elimination de la Subvention et Méthode de Paiement de la Subvention Dans le Cadre

de l'Accord de Subvention au Programme de Réforme du Sous-Secteur Des Engrais (PRESSE) (No. 631-K-601)," Letter No. 0041/MINPAT/DP/D dated 8 January 1988.

50. USAID/Cameroon, "Program Grant Agreement Between the Republic of Cameroon and the United States of America for Fertilizer Sub-Sector Reform - AID Program No. 631-K-601 (September 29,1987)" and "Program Implementation Letters No. 8 of June 22, 1990, No. 11 of September 11, 1992 and No. 15 of October 4, 1993."

51. See Table VIII for FSSRP subsidy elimination data plus target and importation tonnage by campaign and year. In summary, for the initial 1988-89 campaign the government set the average subsidy rate at 33 percent of estimated total delivered cost for a target tonnage of 60,000 tons. For the 1989-90 campaign, the government set the average subsidy rate at 24 percent for a target tonnage of 75,000 tons. The government set the average subsidy rate at 20 percent and the target tonnage at 50,000 tons in 1990-91. Comparable figures for the 1991-92 campaign were 17 percent and 34,000 tons. For the 1992-93 campaign, the subsidy rate was 15 percent and target tonnage 50,000 tons. And, for the 1993-94 campaign, the subsidy rate was 8 percent and the target tonnage 40,000 tons.

52. So that this last public monopolistic procurement may be more accurately referred to, from the perspective of the agricultural calendar, as the 1987-88 procurement.

53. Elements of the methodology used by DPWM for the determination of fertilizer administered prices are contained in "Arrête No. 004/MINEP/DPPM du 2 Février 1982 Fixant les Elements Constitutifs du Prix de Revient des Produits Importés et des Produits de Production Locale," 21-38; "Arrête No. 100/MINDIC/DPPM du 12 Decembre 1988 Fixant les Elements Constitutifs du Prix de Revient et les Marges Bénéficiaires Applicables aux Produits Importes, aux Produits de Fabrication Locale et aux Prestations de Services," and "Arrête No. 48/MINCI/DPPM/SDP/P3 du 4 Juillet 1988 Fixant les Tarifs des Transports Routiers des Marchandises."

54. The authors were unable to find any empirical study to validate the 45 percent of the CIF import price as an appropriate gross margin. And officials of MINDIC's DPWM did not produce any empirical study to substantiate the DPWM's regulations and methodology.

55. "MINDIC/MINPAT Orders of May 1988 and June 1989 Fixing Fertilizer Ceiling Target Subsidized Farmgate Prices and Unit Subsidies."

56. Richard Abbott, *Privatization of Fertilizer Marketing in Cameroon: A Second Year Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report* (Washington, DC: Abt Associates, June 1990).

57. Ministry of Agriculture, "Proceedings of the 26 February 1990 Meeting of the

Technical Supervisory Committee," 4.

58. "Agreement between the Technical Supervisory Committee (TSC) and the Bank of Credit and Commerce Cameroon (BCCC) for the Management of the Fertilizer Sub-Sector Reform Program (FSSRP) Fund in Cameroon" signed on March 30, 1988.

59. BCCC was 35 percent and 65 percent owned by the government and the infamous Bank of Credit and Commerce International (BCCI), respectively, from 1987 to 1992.

60. The authors would like to acknowledge the contributions of officers in the credit divisions of BICIC, SGBC, BCCC and SCBC in the design and improvement of access and disbursement rules to the FSSRP subsidy and credit funds.

61. Akintola Williams & Co, Fertilizer Sub-Sector Reform program - Audit of Accounts from the Period Beginning February 1988 to 31st May 1992 (Douala, Cameroon: September 1992); and, Richard Abbott and David Lloyd, Privatization of Fertilizer Marketing in Cameroon: A Fourth Year Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report (Washington, DC: Abt Associates, November 1992).

62. Technical Supervisory Committee, "Agreement between the Technical supervisory Committee (TSC) and the Fiduciary Bank for the Management of the Fertilizer Sub-Sector Reform Program (FSSRP) Funds in Cameroon" (Yaounde, Cameroon: November 1992).

63. Given that the optimum weight of a fertilizer shipment was between 5,000-7,000 tons (see International Fertilizer Development Center, Cameroon Fertilizer Sector Study: 156-198 and 259-329) and the total tonnage of fertilizer imported was 63,000 tons, both BICIC and Meridien Bank had executed approximately 9 to 12 importation contracts in 1988-89. Four out of four banks that had signed up with the FSSRP had effectively participated in the program during the 1989-90 campaign. Given that the total tonnage imported was 64,171 tons, in 1989-90 all four banks had executed a total 9 to 12 importation contracts. During the 1990-91 campaign, only one out of four accredited banks effectively participated in the FSSRP. Given the total amount of only 22,003 tons imported under the FSSRP during that year, one bank had executed 4 importation contracts. In 1991-92, four out of five accredited banks effectively participated in the FSSRP. Together those four banks executed 9 importation contracts for a total of 31,800 tons of fertilizer imported.

There are no exact figures on the number of contracts executed in each campaign. In addition, starting in 1990-91, the bulk of imports was done outside of firm contracts, with the exception of plantations and occasionally cooperatives. The number of contracts executed is related to the number of subsidy disbursements and importation loans granted during each campaign by the Fiduciary bank:

YEAR	LOANS	SHIPMENTS	TONNAGE	TONS/SHIPMENT AVG
1988 / 89	5	5	63,000	12,6001
1989 / 90	9	9	64,171	7,130
1990 / 91	4	5	22,003	4,401
1991 / 92	9	10	31,800	3,180
1992 / 93	5	6	22,670	3,778
1993 / 94	2	5	18,157	3,631

Sources: Fiduciary Bank's reporting and Annual Review reports for 1-6 years.

Note: It is possible that these shipments contained unsubsidized fertilizer as well, particularly in the later years with IBEX shipments. Also, in 1992-93 and 1993-94 there were 1 and 3 shipments, respectively, that were imported under supplier's credit. Finally, sometimes contracts were stretched over more than one ship. The 1988-89 data are not clear - this fertilizer could have come on more than 5 ships.

64. Tham V. Truong, "Concept Paper for Phase II of A Program of Reform in the Agricultural Marketing System - Reform of the Robusta Coffee and Cocoa Sub-sectors," (Yaounde, Cameroon: July 1992).

65. Richard D. Abbott and Edward K. *Dey,* Privatization of Fertilizer Marketing in Cameroon: A Fifth-Year Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report (The Postharvest Institute for Perishables, University of Idaho: October 1993): 64.

66. During the successive FSSRP Annual Reviews and Workshops from 1989 to 1994, representatives of commercial banks had repeatedly presented the following reasons for requiring 100 percent cash or near-cash guarantee: (1) the lack of enforcement of property right and contract laws; (2) the highly ineffective legal court system; (3) the lack of equity funding offered by importers; and, (4) the weakness of importers and distributors in preparing and presenting sound marketing and financial plans. See also, Richard Abbott and David Lloyd, Privatization of Fertilizer Marketing in Cameroon: A Fourth Year Assessment of the Fertilizer Sub-Sector Reform program - Technical Report, specially Annex C under BICIC (for thinly capitalized importers) and Meridien (for legal difficulties); and, World Bank, "Conclusions de la Reunion des Bailleurs de Fonds sur la Promotion du Secteur Privé au Cameroon," Annex 1 of the "Aide Memoire de la Mission de la Banque Mondiale Relative à la Promotion du Secteur Privé" drafted by Mr. Jean-Jacques Deschamps, Charge d'Opérations Principal, Banque Mondiale, on 12-14 January 1992.

67. FERIDA SA was incorporated in Cameroon in 1989 with a registered capital of FCFA 1 million or US dollar 3,636. IBEX SARL was incorporated in Cameroon on 20 May 1989 with a registered capital of FCFA 5 million or US dollar 18,182.

68. ADER was incorporated in Cameroon on 6 March 1980 with a registered capital of FCFA 230 million or US dollar 836,364. AMINOU was incorporated in Cameroon on 15 April 1980 with a registered capital of FCFA 100 million or US dollar 363,636.

69. CAMATREX was incorporated in Cameroon on 17 March 1988 with a registered capital of FCFA 20 million or US dollar 72,727.

70. PELENGET was incorporated in Cameroon on 8 February 1977 with a registered capital of FCFA 60 million or US dollar 218,182. And, see Richard D. Abbott and David A. Lloyd, <u>Privatization of Fertilizer Marketing in Cameroon: A Fouth Year Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report</u>, 53-54.

71. Interviews with BICIC and Meridien and examination of UCCAO and NWCA's proceedings of reviews of bids.

72. UCAL, UCCAO and NWCA's proceedings of reviews of bids.

73. Under the FSSRP procedures, the fiduciary bank disbursed subsidy funds after a review of documents submitted by the importers through the commercial bank. Through this review the fiduciary bank ascertained whether the fertilizer shipment had left the port of origin (as evidenced by the issuance of a Bill of Lading), had arrived at the port of Douala, and had cleared the customs services of the port (as evidenced by port customs clearance documents issued by government authorities). The value of either the stand-by letter of credit from a foreign bank or the local distributor's irrevocable promissory note was, at least, equal to the difference between the CIF landed Douala value of the fertilizer shipment minus the subsidy paid by the government under FSSRP.

74. Importers had to put forward their own equity funds to finance the importation of fertilizer because of the declining value of the subsidy. In addition, importers were assuming more risk because they imported more and more for direct sales. The data listed below shows that importation for direct sales to users was increasing with each campaign during the first five campaigns of FSSRP and represented approximately 80 percent of the total tonnage imported during the 1993-94 campaign. Thus, importers were increasingly assuming more risks and distributors were shopping and buying in the port.

YEAR	(1) TOTAL TONNAGE	(2) DIRECT SALES	(2) /(1)x100%
1988/89	63,000	0	0.0%

1989/90	64,171	1,542	2.4%
1990/91	22,003	11,356	51.6%
1991/92	31,800	17,775	55.9%
1992/93	22,670	19,670	86.8%
1993/94	18,157	14,419	79.4%

Note: estimated from figures in Richard Abbott et al's Annual Assessment Reports 1-6.

75. William J. Baumol, "Contestable Markets: An Uprising in the Theory of Industry Structure," American Economic Review, vol. 72, no. 1 (March 1982): 1-15; Martin L. Weitzman, "Contestable Markets: An Uprising in the Theory of Industry Structure: Comment," American Economic Review, vol. 73, no. 3 (June 1983): 486-487; Marius Schwartz and Robert J Reynolds, "Contestable Markets: An Uprising in the Theory of Industry Structure: Comment," American Economic Review, vol. 73, no. 3 (June 1983): 488-490; and, William J. Baumol, John C. Panzar, and Robert D. Willig, "Contestable Markets: An Uprising in the Theory of Industry Structure: Reply," American Economic Review, vol. 73, no. 3 (June 1983): 491-496.

76. Authors' Interviews in 1987.

77. Interview with one firm's manager in Douala, Cameroon, in 1987. In addition, another company suffered losses of approximately US$ 2-3 million and had submitted a claim to its U.S. insurer.

78. Richard Abbott and David Lloyd, Privatization of Fertilizer Marketing in Cameroon: A Third Year Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report (Washington, DC: Abt Associates, April 1991), 3 section 1.2.4.

79. Akintola Williams & Co., Fertilizer Sub-Sector Reform Program (FSSRP) - Audit of Accounts from the Period Beginning February 1988 to 31st May 1992 (Douala, Cameroon: 21 September 1992).

80. Richard Abbott and Edward Dey, Privatization of Fertilizer Marketing in Cameroon: A Fifth Year Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report (Moscow, Idaho: Postharvest Institute for Perishables, October 1993): 15; and, Privatization of Fertilizer Marketing in Cameroon: A Sixth and Final Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report (Moscow, Idaho: Postharvest Institute for Perishables, June 1994): section 3.3.3 and appendix f.

81. Richard Abbott and David Lloyd, Privatization of Fertilizer Marketing in

Cameroon: A Third Year Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report (Washington, DC: Abt Associates, April 1991), 16.

82. Prices went from FCFA 450 per kg in 1988 to FCFA 270 per kg in 1992 for cocoa, from FCFA 450 per kg in 1988 to FCFA 250 per kg in 1992 for arabica coffee, and from FCFA 425 per kg in 1988 to FCFA 175 per kg in 1992 for robusta coffee. See Francois Kamajou, J.P. Ayissi Mballa and Emmanuel Foko, Price Policy Analysis and the Demand for Fertilizer in Cameroon (Dschang, Cameroon: October 1993), 56. In addition, coffee prices declined significantly during 1987-93:

COFFEE PRICES IN francs CFA

Year	Arabica	Robusta
1987/88	520	440
1988/89	475	440
1989/90	250	175
1990/91	250	155
1991/92	250	155
1992/93	200	100
1993/94 (pre dev)	270	135
1993/94 (post dev)	675	270

Note: 1992/93 were decreed minimum prices. For arabica, the price actually paid was higher (FCFA 220-250 range). In 1993/94 arabica prices were totally liberalized - FCFA 675 per kg is an average figure. Robusta price remains the government floor price.

Source: Richard Abbott and Edward Dey, Privatization of Fertilizer Marketing in Cameroon: A Sixth Year and Final Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report, Exhibit 5 in section 3.3.4.

83. Fertilizer imports were 55,007 tons in 1987-88 (pre-FSSRP)(based on an interview with the Provincial Delegate of Agriculture for the Littoral Province in September 1988, a total of 64,007 tons were imported in 1987-88 but only 55,007 tons went to the seven Southern Provinces, with 9,000 tons going to the North). Imports then went from

63,000 tons in 1988-89, 64,172 tons in 1989-90 to 22,003 tons in 1990-91, 35,800 tons in 1991-92, 22,670 tons in 1992-93 and 18,157 tons in 1993-94. See Richard Abbott and Edward Dey, Privatization of Fertilizer Marketing in Cameroon: A Sixth Year and Final Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report (Draft) (Moscow, Idaho: Postharvest Institute for Perishables, June 1994), Section 3, 2.

84. International Fertilizer Development Center, Cameroon Fertilizer Sector Study, 156-198; and, Tham V. Truong and S. Tjip Walker, "Policy Reform as Institutional Change: Privatizing the Fertilizer Sub-Sector in Cameroon," Institutional Sustainability in Agriculture and Rural Development: A Global Perspective, eds. D.W. Brinkerhoff and A.A. Goldsmith (New York, NY: Praeger, 1991).

85. The 1993-94 data are not included in the efficiency analysis. The 12 January 1994 devaluation had caused a tremendous increase in the CIF landed Douala prices of fertilizers and the Cameroon fertilizer market had not, as of June 1994, yet completely adjusted to the impact of the devaluation.

86. All figures presented in the "Efficiency Gains" section are in current prices. Time series comparisons in current prices are warranted in this instance because: (1) The Cameroonian economy was in recession during the 1987-94 period with GDP declining by 35 percent in real terms and the rate of inflation estimated at an annual average of 0.5 percent based on the GDP deflator and 2.1 percent based on the consumer price index; (2) The exchange rate remained unchanged during the 1987-93 period under consideration at FCFA 50 per FF 1; and, (3) There appear to be no major price fluctuations in the European fertilizer market (See IFDC/Lomé's monthly newsletters for price trends for NPK 20-10-10, urea, ammonium sulfate and the other NPK 12-06-20/10-30-10 during the 1987-93 period).

87. The average CIF costs refer to the weighted average for all five fertilizers covered by the FSSRP. The weights used are the cumulative percentages of each type of fertilizer imported under the FSSRP overall previous campaigns.

88. The average unsubsidized CIF landed Douala costs per ton was FCFA 58,031 for the 1989-90 campaign, FCFA 55,133 for the 1990-91 campaign, and FCFA 54,463 for the 1991-92 campaign.

89. Furthermore, since 1993, with the broadening of the distribution system and the decreasing reliance on contract orders between distributors and importers, stocks were being held at all levels of the distribution system so that instantaneous delivery had become possible. See John H. Eriksen and Peter Bloch, Economic Policy Reform Impact Assessment of USAID-Supported Reform Initiatives in Cameroon, 1987-1994 (Washington, DC: Associates in Rural Development, Inc., March 1994): 28.

90. Interviews with evaluators of the EEC PSIE program and Ministry of Planning, Evaluation et Audit du Programme Special d'Importation d'Engrais (P.S.I.E.) - Phase 2: Conclusions et Recommendations (Yaounde, Cameroon: Novembre 1991): 14.

91. Execution of an importation contract with MINAGRI/FONADER had required the foreign broker and his Cameroonian agent to issue a bid bond, a performance bond, an advanced payment guarantee, a letter of credit and a long waiting period for payment. The execution of an importation contract with a private wholesaler under the FSSRP, however, only required the local importer to hand over to his local bank a promissory note from his buyer, the bank's earmarking of the FSSRP subsidy and the issuance of a letter of credit. Under the general supervision of the commercial bank, the importer promptly received payment once the fertilizer arrived in Douala and delivery to wholesaler was initiated.

92. While the importers operating under the MINAGRI/FONADER monopoly had been effectively "mail box agents" for foreign brokers and procured the fertilizer indirectly through the brokers, importers operating under the FSSRP procured the fertilizers directly from European manufacturers. By eliminating one layer of intermediaries (an unnecessary one), the FSSRP was able to eliminate one layer of commission and, thus (other things being equal), enabled distributors to offer lower prices to their customers without this having to be subsidized by the government.

93. With a high degree of competition exercised by potential new importers who participated in large numbers in private tenders launched by the large unions of cooperatives, importers who won importation contracts through private tenders (such as those, for example, of UCCAO, NWCA and UCAL) were compelled to offer low prices to wholesale distributors.

94. William J. Baumol, "Contestable Markets: An Uprising in the Theory of Industry Structure."

95. Estimated average distribution cost declined from FCFA 29,723 per ton to FCFA 24,827 per ton from the first to the second FSSRP campaigns. Estimated average distribution cost remained at FCFA 24,827 and 23,648 per ton for the next two consecutive 1990-91 and 1991-92 FSSRP campaigns. For the 1992-93 campaign, distribution costs rose slightly, to FCFA 26,506 per ton principally due to value added costs involved in the quay side bagging of over half of that campaign's imports (see Table VII).

96. International Fertilizer Development Center, Cameroon Fertilizer Sector Study, 187.

97. Based on the authors' experience and observations, the average storage time at the port of entry Douala was 0 to 6 months under FSSRP.

98. International Fertilizer Development Center, Cameroon Fertilizer Sector Study, 18.

99. Estimated from distribution cost of approximately FCFA 25,000 per ton as presented in Table VII on marketing costs.

100. International Fertilizer Development Center, Cameroon Fertilizer Sector Study, 191.

101. Richard Abbott and Edward Dey, Privatization of Fertilizer Marketing in Cameroon: A Fifth Year Assessment of the Fertilizer Sub-Sector Reform Program, 87 (the case of CAPLAMI).

102. Richard Abbott and Edward Dey, Privatization of Fertilizer Marketing in Cameroon: A Sixth Year and Final Assessment of the Fertilizer Sub-Sector Reform Program, Annex D (the case of PELENGET).

103. Gasoline prices were raised from FCFA 150 per liter in 1986-88 to FCFA 284 per liter in 1989-92. Listed below are the official gasoline prices for the 1986-94 period (in FCFA per liter):

1986-1989	FCFA 150
1989-1992	FCFA 284
1992-1994	FCFA 190
1994 (POST DEVALUATION)	FCFA 261

104. Planning, Evaluation and Monitoring Division, North West Development Authority, North West Province Fertilizer Use Survey (Bamenda, Cameroon: November 1990); Francois Kamajou and Jean Ambela Nyemba, Fertilizer Use in the West Province of Cameroon: Identification of Some Constraints at Farm Level in 1990 (Dschang, Cameroon: December 1990); Direction des Enquêtes Agro-Economiques et de la Planification Agricole, Ministry of Agriculture, Enquête Engrais 1990 (Yaounde, Cameroon: April 1991); Nicholas Minot, Impact of the Fertilizer Sub-Sector Reform Program on Farmers: The Results of Three Farm Level Surveys (Washington, D.C.: Abt Associates, April 1991); and, Direction des Enquêtes Agro-Economiques et de la Planification Agricole, Ministry of Agriculture, Enquête Engrais 1992 (Yaounde, Cameroon: Octobre 1993).

105. In the 1990 survey, 66.7 percent of farmers responding noted that timeliness, one of the principal shortcomings of the former administered system, had improved with the new system (33.3 percent felt that timeliness had deteriorated under the new system).

An additional 60.4 percent of farmers felt that fertilizer supply had improved as compared to the MINAGRI/FONADER monopoly, a system that had been characterized by quantitative allocation and rationing. Improvement in the quality of fertilizer delivered under the new marketing system was noted by 75.0 percent of farmers. Farmers were evenly divided as to whether the variety of types of fertilizer had improved or deteriorated (54.0 percent noted an improvement and 46.0 percent noted a deterioration). This result was as expected because the types of fertilizer covered under the FSSRP and the MINAGRI/FONADER system did not change - the same five types were subsidized. Finally, and not surprisingly, however, all farmers (i.e., 100.0 percent of the survey population) noted the increased prices as compared to the former system.

The 1992 survey indicates that timeliness had not improved as compared to the 1990 results, with 49.8 percent of farmers noting improvement in the timeliness of supply. Only 44.1 percent of farmers felt that there had been further improvements in the adequacy of supply. However, it should be noted that the two major coffee cooperatives in the West Province, which accounted for the majority of fertilizer distribution in that region, adopted policies of subsidizing fertilizer to their farmer-members, and rationing subsidized sales to members based on coffee deliveries. Excluding the West Province, the percentage of farmers noting an improvement in adequacy of supply increased significantly, to 59.5 percent. Improvement in the quality of fertilizer delivered was noted by 82.8 percent of farmers, a figure even higher than that found in the 1990 survey. Finally, the 1992 survey showed 75.3 percent of farmers noting a deterioration in the system due to increased prices. It is interesting to note, however, that no farmers in the 1990 survey noted any improvements in the system due to lower prices, whereas 24.7 percent of the farmers surveyed in 1992 felt that the system had improved due to lower prices for fertilizer.

106. John H. Eriksen and Peter Bloch, Economic Policy Reform Impact Assessment of USAID-Supported Reform Initiatives in Cameroon, 1987-1994, 28-29.

107. This trend is also supported by data collected during the 1990 and 1992 surveys.

108. Waiver could be obtained through a protracted process.

109. Local policemen regularly extracted payments from transporters and passengers at those check-points. Because of the prevalence of that abuse of power, policemen were sarcastically referred to as "mange mille" by Cameroonians transporters (translated as "eaters of 1000 [franc notes]".

110. See J.E. Austin Associates, Cameroon: MAPS Private Sector Diagnosis (Cambridge, Massachusetts: March 1990) which reported the following: government regulations make it difficult to start and operate a business in Cameroon (14), the existence of road blocks (21), 61 percent of businesses surveyed said that contracts were

difficult to enforce and 63 percent said that contract enforcement problems make it difficult to do business in Cameroon (Appendix A, question 59).

111. See note 19 above.

112. These other rent-seeking practices related to the award of import contracts, taking possession of fertilizer shipments at the port of entry and the related practice of graduated partial payments to importers, the award of inland internal transportation contracts and, finally, the quantitative allocation of subsidized fertilizers to cooperatives and independent distributors.

113. The interests of the "general rent-seeking/entrenched interests coalition" included maintaining control of the control of cocoa/coffee marketing systems with its stabilization fund and the control of the marketing of wheat flour, rice, refined sugar and edible oils with their tax-cum-subsidy equalization funds. In addition, it included the management of the social security fund and the civil service pay-roll fund the management of SOEs, and the stewardship of intricate, involved and ill-designed business practices and procedures (such as import licensing, administered pricing, maritime freight transport, customs clearance at the port of entry, the legal and judicial systems to name just the more obvious sources or points of vested interest).

114. See note 18 above.

115. See notes 18 and 19 above.

116. Mancur Olson, The Rise and Decline of Nations. Of course, the situation where the civil service work force was very large and constituted omnipresent "rent-seeking coalitions" was not unique to Cameroon. It can be found in numerous countries of Central and West Sub-Saharan Francophone Africa like Ivory Coast, Senegal, Togo and Mali where the one-political-party systems had to rely on civil servants for support and stability.

117. World Bank, Agricultural Input Supply in Cameroon (Alexandria, VA: Elliot Berg Associates, June 1983), Volumes I and II.

118. In addition, the rent seeking coalition that controlled the fertilizer procurement system and the fertilizer subsidy fund was powerful and too strongly opposed to changes. Members of the fertilizer rent-seeking coalition also controlled the public monopolistic pesticide procurement system with a subsidy fund of approximately US dollar 25 million per year. The members of the fertilizer and pesticide rent-seeking coalition also had very strong ethnic and political ties with the Executive Power (from authors' interviews).

119. USAID/Cameroon, "FSSRP Grant Agreement, Section 3.1(C)" -The public announcement of the liberalization and privatization of the fertilizer market was one of the

many conditions precedent for the first disbursement of US dollars under FSSRP.. Opposition also manifested itself in the reluctance of the DPWM/MINDIC to cooperate in issuing in a timely fashion the differentiated pricing schedule to launch the first FSSRP campaign. In addition, opposition was reflected in the difficulty in getting MINFI to deposit resources into the FSSRP subsidy fund Finally, opposition included the reluctance of the parastatal SODECOTON to espouse liberalization and competition for fear of losing market share.

120. For example, because of the public maritime freight monopoly and the temporary excess supply of fertilizer in 1989-90 due to the huge arrears owed by the government to coffee and cocoa producers (see Tham V. Truong, "A Concept Paper for a Program of Reform in the Agricultural Marketing Sector, Phase II - Reform of the Robusta Coffee and Cocoa Sub-sectors"), IBEX and CAMATREX were threatened with huge fines by the Port Authority. Contacted by IBEX and CAMATREX owners, USAID/Cameroon got the TSC to intervene with the Cameroon Port Authority to explain the special circumstances of the FSSRP and the special problems faced by its new participants due to the acute problem of arrears in the coffee and cocoa sub-sectors. USAID/Cameroon also got the Port Authority to lower the fines to levels that would not jeopardize the financial stability of IBEX and CAMATREX.

In addition, in the absence of an effective legal enforcement mechanism, USAID/Cameroon and the TSC had attempted to facilitate dispute resolution by mediating problems between CAMATREX, BIAO and NWCA in an effort to prevent high transaction costs from bankrupting active bankers, importers and distributors. See S. Tjip Walker, Crafting A Market: A Case Study of USAID's Fertilizer Sub-Sector Reform Program (Burlington, Vermont: Associates in Rural Development, March 1994), 55-58.

121. S. Tjip Walker, Crafting A Market: A Case Study of USAID's Fertilizer Sub-Sector Reform Program (Burlington, Vermont: Associates in Rural Development, March 1994), 55-58.

122. That working hypothesis was proven correct when, in 1991, USAID/Cameroon privatized the arabica coffee market under the PRAMS I program. The negotiation and implementation of the PRAMS I program were with different Ministry and official entities (Ministry of Commerce and the National Produce Marketing Board instead of the Ministries of Planning and Agriculture) even though the PRAMS I program also dealt with market liberalization and privatization. In addition, frequent Cabinet reshuffles through the years have discarded from the economic policy arena the majority of the original members of the TSC who have negotiated, influenced the design and implemented the FSSRP.

123. It is recalled that the complete liberalization of the fertilizer market could not be carried out all at once.

124. Leon Walras, Elements of Pure Economics or the Theory of Social Wealth (Great Britain: Richard D. Irwin, Inc., 1954): 170 and 470. It is worthwhile to quote the following note 12 (520) written by William Jaffe who translated Leon Walras' Elements of Pure Economics: "Here Walras introduces his characteristic theory of "tattônnement" which literally translated means "groping". It is a theory of the process by which the market mechanism solves the equilibrium equations not only the equations of exchange, but also the equations of production (Lesson 21) and the equations of capitalization (Lesson 25). The market does this, not as a rational, sentient entity, but rather as a blind mechanism so constituted that it automatically makes continual trial and error adjustments toward equilibrium. Hence Walras's term "tattônnement", the meaning and spirit of which is best rendered in English by the word "groping" rather than "approximations",..."

125. See Ronald J. Oakerson, Susan Wynne, Tham V. Truong and Stuart Tjip Walker, Privatization Structures: An Institutional Analysis of the Fertilizer Reform Program in Cameroon, (Washington, DC: Ernst & Young, September 1990).

126. See Richard Abbott, Privatization of Fertilizer Marketing in Cameroon: A First Year Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report (Washington, D.C.: Abt Associates, June 1989); Richard Abbott, Privatization of Fertilizer Marketing in Cameroon: A Second Year Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report (Washington, D.C.: Abt Associates, June 1990); Richard Abbott and David Lloyd, Privatization of Fertilizer Marketing in Cameroon: A Third Year Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report (Washington, D.C.: Abt Associates, April 1991); Richard Abbott and David Lloyd, Privatization of Fertilizer Marketing in Cameroon: A Fourth Year Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report (Washington, D.C.: Abt Associates, November 1992); Richard Abbott and Edward Dey, Privatization of Fertilizer Marketing in Cameroon: A Fifth Year Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report (Moscow, Idaho: Postharvest Institute for Perishables, October 1993); and, Richard Abbott and Edward Dey, Privatization of Fertilizer Marketing in Cameroon: A Sixth Year and Final Assessment of the Fertilizer Sub-Sector Reform Program - Technical Report (draft) (Moscow, Idaho: Postharvest Institute for Perishables, June 1994).

127. R.H. Coase, especially 1-31; and, Douglas C. North.

128. Partly because of the opposition of the various "rent-seeking coalitions," the issue of fertilizer pricing and import licensing required several years after the initiation of the FSSRP to resolve. The issue of coffee and cocoa producer prices which were key determinants of farmer's ability-to-pay for fertilizer required even more time to find a partial solution. Producer price for arabica coffee was only liberalized in the 1993-94 coffee season under the USAID/Cameroon PRAMS I Program, Grant No.631-T-604. Producer prices for robusta coffee and cocoa were not yet liberalized as of June 1994."

129. How do proponents of the completely "*laissez faire"* approach visualize that new business relationships would be created, unassisted with in the liberalized and privatized fertilizer market? How long do proponents of the *laissez faire"* approach think that it would take to see the creation of new business relationships unassisted in the adverse macroeconomic and institutional environment in the country during the 1987 - 1994 period?

130. Institutional arrangements are understood to mean the full range of formal and informal rules, regulations, procedures and incentive sets in the economic, political and social spheres that guide human interaction to a particular outcome. See Tham V. Truong and S.T. Walker, "Policy Reform as Institutional Change: Privatizing the Fertilizer Sub-Sector in Cameroon."

131. This approach has been advocated by H.R. Coase, The Firm, the Market and the Law, p. 154: "A second feature of the usual treatment of the problems discussed in this article is that the analysis proceeds in terms of a comparison between a state of laissez faire and some kind of ideal world. This approach inevitably leads to a looseness of thought since the nature of the alternatives being compared is never clear.....A better approach would seem to be to start our analysis with a situation approximating that which actually exists, to examine the effects of a proposed policy change, and to attempt to decide whether the new situation would be, in total, better or worse than the original one. In this way, conclusions for policy would have some relevance to the actual situation."